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On the cover
Iraq and Afghanistan are not wars without end. But "winning" either struggle will take many years, and cannot be achieved by force alone: leader

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Politics this week

Dec 13th 2007
From The Economist print edition

Russia's president, Vladimir Putin, said he would support Dmitry Medvedev, first deputy prime minister, as the presidential candidate for his United Russia party. That makes Mr Medvedev a near-certainty to take over. But he promptly disappointed those who hope he will be more liberal than his predecessor by saying he wanted Mr Putin as his prime minister, meaning that Mr Putin is likely to call the shots. See article

Ukraine's parliament failed to confirm Yulia Tymoshenko as prime minister. Ms Tymoshenko had earlier struck a deal with the president, Viktor Yushchenko, that should have given her enough votes. Ukraine has been without a government since an election in September.

A December 10th deadline for a United Nations report on **Kosovo's future** came and went without incident. Kosovo is still expected to declare unilateral independence from Serbia early next year. See article

The new **Polish prime minister**, Donald Tusk, visited Berlin for talks with the German chancellor, Angela Merkel. Bilateral relations under the previous Polish government were notoriously scratchy, but Mr Tusk and Ms Merkel vowed to improve matters.

EPA

European Union leaders headed to Lisbon to sign a new reform treaty, which incorporates most of the defunct EU constitution, rejected by French and Dutch voters in 2005. Britain's Gordon Brown conveniently arrived late for the treaty-signing ceremony. See article

Terror strikes again

Reuters

Al-Qaeda in the Islamic Maghreb, an **Algerian** group affiliated to Osama bin Laden's, claimed responsibility for two car-bombs in Algiers that hospital sources say killed 76 people, including 11 who worked for the United Nations. See article

A declaration that concluded the first summit in seven years between the European Union and the renamed **African Union** mentioned trade, governance and global warming but was silent on Darfur and Zimbabwe, whose leader, Robert Mugabe, attended. Britain's prime minister, Gordon Brown, stayed away in protest. Germany's chancellor, Angela Merkel, and three other European leaders openly criticised Mr Mugabe.

Former rebels in southern Sudan ended a political crisis by agreeing to rejoin the country's government of national unity, from which they withdrew in October. But Sudan's president, Omar al-Bashir, and the southerners still failed to agree on the demarcation of the oil-rich Abyei region.

South Africa's ruling African National Congress (ANC) said it would elect a leader at a conference starting on December 16th. The choice is between the incumbent, Thabo Mbeki, who is both the ANC's and the country's president, and Jacob Zuma, the party's vice-president. See article

Nigeria's anti-corruption agency arrested James Ibori, a wealthy former governor of the oil-rich Delta State who was a big financier of President Umaru Yar'Adua's election campaign in April. Failure to prosecute Mr Ibori had cast doubt on the president's sincerity in continuing his predecessor's anti-corruption drive.

In the dock

Alberto Fujimori, **Peru's** president between 1990-2000, went on trial at a special courtroom in Lima for the murder of 25 people killed by an army death-squad during his rule. He denies knowledge of the squad's operations. In a separate case, he was sentenced to six years in prison for illegally ordering the search of an apartment.

Cristina Fernández de Kirchner was sworn in as **Argentina's** president. Meanwhile, prosecutors in Florida charged four men they claimed were **Venezuelan agents** with plotting to manipulate Argentina's presidential election. See article

In a session boycotted by the opposition, members of a constituent assembly loyal to **Bolivia's** socialist president, Evo Morales, approved a draft new constitution. Opposition leaders threatened to declare their regions autonomous. See article

Seven South American governments founded the **Bank of the South**, a putative rival to the IMF and the World Bank. But they have yet to agree many of the details of how it might work. See article

Coming around

Nawaz Sharif, a former prime minister of **Pakistan**, lifted his threat to boycott the country's general election, scheduled for January 8th. All but one of Pakistan's biggest political parties have now agreed to take part in the ballot. See article

India's opposition Bharatiya Janata Party chose Lal Krishna Advani, its parliamentary leader, as its candidate for prime minister at the next general election. See article

The third round of “strategic economic dialogue” between **America** and **China** produced little except lectures from Chinese officials telling America to put its own house in order before criticising China. See article

The first regular train service in more than half a century to link **North and South Korea** began operating, carrying freight across the border.

Afghanistan's president, Hamid Karzai, said he needed more help from NATO and others to build a 200,000-strong army. Meanwhile, Afghan and NATO troops finally recaptured the town of Musa Qala, in Helmand province, forcing out the Taliban, who had taken it in February. See article

Delegates from 190 countries fought over a successor agreement to the **Kyoto protocol** in Bali, Indonesia. The EU wants rich countries to commit themselves to cut emissions between 25-40% from 1990 levels by 2020, which America is resisting. There was more progress on a deal on “avoided deforestation”— rewarding countries for not chopping down their forests.

Goodwill to all men

Democrats and Republicans argued over a huge **spending bill** and over money for military operations. George Bush said Congress had attached too many pet projects to the legislation. Newly converted to fiscal constraint, Mr Bush also vetoed a bill to expand children's health insurance.

AFP

The race for president tightened with less than three weeks to go until the **Iowa caucuses**, the start of the parties' nominating process. One nationwide poll put Mike Huckabee, the favourite of conservative Republicans, neck and neck with Rudy Giuliani. Meanwhile, Oprah Winfrey brought her star power to Barack Obama's campaign for the Democratic nomination. He now has the edge in Iowa. See article

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Business this week

Dec 13th 2007
From The Economist print edition

America's Federal Reserve, the European Central Bank, the Bank of England and the central banks of Canada and Switzerland launched a co-ordinated **effort to bolster liquidity**. After several months of turmoil, financial institutions are still reeling from the squeeze in money markets and access to credit has tightened. The Fed and its partners are introducing loans to depository institutions for a temporary period to ease their funding pressures. See article

Earlier, the Federal Open Market Committee cut America's benchmark **interest rate** by one-quarter of a percentage point, to 4.25%. It was the third rate reduction since August and comes amid much discussion about whether America is heading towards an economic recession.

Zurich, we have a problem

UBS's woes continued to mount. The Swiss bank reported further write-downs totalling $10 billion stemming from its exposure to the meltdown in America's subprime-mortgage market; it also said it would now probably make a loss this year, reversing the sunnier predictions that it made in October. Underlining the scale of its problems, UBS turned to two sovereign-wealth funds, one in Singapore, the other said to be a Middle Eastern state, for an emergency capital injection.

The tumult in the credit markets spread to **Société Générale**, France's second-biggest bank by value, which provided a $4.3 billion bail-out to its only structured investment vehicle.

Citigroup chose Vikram Pandit to become its chief executive officer following last month's departure of Chuck Prince. Sir Win Bischoff was named as chairman, a position that Mr Prince had held concurrently. Mr Pandit, who headed Citi's investment-banking division, promised a “front-to-back review” of all the bank's business aspects. It has had to write down billions of dollars because of its exposure to the subprime-mortgage market and contend with shareholders unhappy with the value of Citi's stock. See article

MBIA found some respite when it received a $1 billion boost in capital from Warburg Pincus, a private-equity group. The bond insurer is facing the prospect of losing its top-notch credit rating

The family way

James Murdoch sealed his position as heir to the **News Corp** empire when he was given responsibility for the media conglomerate's European and Asian operations, which include such British newspaper titles as the *Times* and the *Sun*, and the Star satellite-television service based in Hong Kong. The 35-year-old is the youngest son of Rupert Murdoch, News Corp's founder and boss.

Conrad Black received a six-and-a-half year prison sentence for defrauding shareholders at Hollinger International, a newspaper company. Three co-defendants received lesser sentences. Mr Black was found guilty of the charges by a jury in July, but maintains he is the victim of “corporate-governance zealots”. The prosecution had mooted a sentence of around 20 years. See article

Renault beat several of its rivals, including General Motors and Fiat, in the bidding for a 25% stake in **AvtoVAZ**, Russia's biggest carmaker. GM said it would now talk to GAZ, Russia's second-biggest carmaker, about a future partnership (a deal is not imminent). With car sales in Russia increasing by around 20% a year, some analysts expect the Russian market to overtake Germany's to become the largest in Europe over the next few years.

Lafarge, a French cement-maker, agreed to buy **Orascom Construction Industries**, an Egyptian rival, for *euro*8.8 billion ($12.9 billion). The deal highlights the building boom under way in Middle Eastern

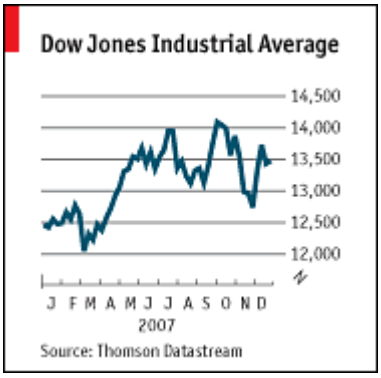
countries flush with petrodollars.

Sinopec, a Chinese state-owned oil company, signed an agreement with the **Iranian government** to develop Iran's Yadavaran oil field. The field will produce 85,000 barrels of oil a day at first, in four years' time. Under an energy deal, Iran will receive $100 billion over 25 years from China for oil and liquefied natural gas.

Penthouse Media agreed to buy **Various**, a company that operates more than 25 social-networking websites such as adultfriendfinder.com, its most popular venture.

A funny old year

Stockmarkets had another rocky week. They fell sharply following the Fed's decision on interest rates (many investors wanted a bigger cut), but rallied after a plan to boost liquidity was announced. Global markets have had a tumultuous year, which started with multi-billion dollar buy-outs and ends with multi-billion dollar write-downs.



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KAL's cartoon

Dec 13th 2007
From The Economist print edition

Illustration by Kevin Kallaugher

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Afghanistan and Iraq

Must they be wars without end?

Dec 13th 2007
From The Economist print edition

No, as recent successes show. But "winning" will take many years, and cannot be achieved by force alone

EPA

Get article background

IF YOU rub your eyes, take a deep breath and look with an open mind at the numbers, the conclusion is unmistakable: things are going a lot better in Iraq. From Afghanistan, too, comes the occasional report of a significant success. This week, for example, American and British soldiers helped Afghan government troops wrest the symbolically important town of Musa Qala back from the Taliban. Is it possible that after four and six years respectively, the American-led wars in Iraq and Afghanistan are at last beginning to come good?

Our reports this week from the front-lines of both wars (see article and article) suggest that the answer to that question should be a guarded yes. In Iraq General David Petraeus's "surge" and a Sunni backlash against al-Qaeda have sharply reduced the killing. It is true that more than 20 civilians are still killed on an average day, but it was not uncommon a year ago to find as many as 100 corpses at dawn. In Afghanistan the yes is more tentative. Violence is spreading and suicide-bombings, less frequent now in Iraq, are taking a rising toll. But as the winter snow begins to fall, American and NATO forces have reached the end of the fighting season without suffering the big reverses they feared at its beginning. As Gordon Brown, Britain's prime minister, boasted this week, it is NATO that took the offensive this year. And in some parts of the country, such as the region around Khost, more Afghans seem ready to transfer their allegiance from the Taliban to the elected government.

Stow that champagne

It is important, however, to understand what "coming good" means. It does not mean that victory is near. The hope (once shared, we admit, by this newspaper) that the West's armies could return swiftly home and leave good order behind them was naive. Saddam Hussein and the Taliban ran cruel dictatorships. But in uprooting them the West exposed deep tribal and sectarian schisms, unleashing violent forces that the dictators had kept in check and which could not be reconciled simply by installing democratic procedures. Although Afghans and Iraqis voted eagerly for democratic constitutions and new governments, these governments are not working well. The losers have not accepted defeat; meanwhile, the winners, especially in Iraq, have been determined to take all.

In such circumstances, "victory" for the West is not going in either place to entail a surrender ceremony

and a parade. At best, coming good will consist of a tapering off of violence, and a crab-wise movement towards a political accommodation between the governments elected under Western supervision and the militias now fighting them. At worst, of course, the West can be defeated. Even if America and its allies prevail in every battle, public opinion may tire of the fight and bring the boys home. Spain, Australia and others have already given up on Iraq. Even the faithful British are now pulling out—albeit under cover of the half-truth that their job in the south is done.

Of these two wars Iraq is the harder to sell. Unlike the Taliban, Saddam Hussein was not an ally of al-Qaeda or complicit in the attacks on America. Those weapons of mass destruction still don't exist. The war in Iraq has taken a much greater toll of American lives—some 4,000, compared with about 500 in Afghanistan. All the same, conditions now are far better than in September, when General Petraeus travelled to Washington to explain the merits of his surge to a sceptical Congress. It is not only the Iraqi civilian death toll but also the American military one that has fallen sharply since then—so much so that the war is beginning to fade as the hottest issue in America's election.

It could get worse, and probably will

In war, however, a pause is seldom an end, and the Shia-dominated government of Nuri al-Maliki has not used the lull to cut a deal with the Sunnis. The consequences of wasting this precious opportunity are predictable. The Sunnis who have been armed by General Petraeus to fight their former allies in al-Qaeda will turn once again on the Shias if they conclude that no acceptable terms for sharing power (and oil) are available. Shia death squads will go back to work, ethnic murders will soar again and Americans will resume calls to extract their soldiers from a maelstrom they cannot contain.

As in Iraq, so in Afghanistan: it would be both morally wrong and tactically foolish for the West's politicians to exaggerate temporary gains in the vain hope of stilling the domestic clamour for withdrawal. Voters are not fools, and most already know what the politicians sometimes fear to tell them. “Victory” in George Bush's wars will at most mean preventing catastrophe; and even this modest aim will for years require spending Western lives and money in campaigns that will demand as much attention to the once-reviled business of nation-building as to the use of military force. Fortunately, Western armies are slowly learning how this can be done.

As to whether either war is worth the prolonged struggle, that is a question whose answer must depend on the changing costs and benefits. A humiliation in Iraq would batter American prestige and unsettle allies who have staked their security on American power. It would embolden al-Qaeda; but might also extinguish a fire that has drawn new jihadists to the cause. At present, however, the strongest case for America to stay is its duty to prevent an even worse calamity from befalling Iraq's people. That calculation could change, too: at some point the American presence may stoke up more violence than it damps down. But for now the judgment of this newspaper remains that an American withdrawal is more likely to end political bargaining and provoke a free-for-all.

In Afghanistan, the moral and political calculus is plainer. Defeat would be a body blow not only to the Afghans themselves, so recently liberated from the medieval cruelties of the Taliban, but also to the NATO alliance and to international law, under which it had full authority to wage this war of self-defence. Too many NATO members in Europe have nonetheless been reluctant to send enough men and machines. That should surely change. Democracies need the courage to withdraw from wars that bring no good, but also to persevere in just ones—even when the end is not yet in sight.

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Russia's new leadership

Spot the president

Dec 13th 2007
From The Economist print edition

Vladimir Putin's bid to remain in power is bad for Russia, for democracy and for the world

Get article background

IT HAS long been obvious that Vladimir Putin is determined to stay in control when his second term as president of Russia expires next year. The only question was just how the country's ruler proposed to skate round the constitutional limit of two consecutive four-year terms in office.

The simplest approach would have been to change the constitution. But even to Mr Putin that must have seemed too bare-faced. Instead he has played a shabby three-card trick on Russia's voters. The first card was to put himself at the head of the pro-Kremlin United Russia party, before the shamelessly manipulated parliamentary election on December 2nd. The two-thirds majority that United Russia then took in the Duma could thus be interpreted as a personal mandate. Next came the announcement on December 10th that he favoured Dmitry Medvedev, his protégé, legal adviser and first deputy prime minister, as United Russia's candidate in the presidential election on March 2nd 2008. Judging by the conduct of all recent elections in Russia, Mr Medvedev will be a shoo-in. The third card was played a day later, when Mr Medvedev shyly let it be known that, when he duly becomes president, he wants Mr Putin himself to serve as his prime minister.

The cynicism of the Kremlin's “Operation Successor”, which is what it calls the presidential election, is worthy of the old KGB (which employed a younger Mr Putin). It used to take careful Kremlinology to grasp the result of power struggles in Moscow. There has been a power struggle over this succession too, but the outcome is depressingly easy to read. Admittedly, a flurry of hopes surfaced when Mr Medvedev first got the nod. He is young (just 42), modern and a fan of rock music; he is thought to be more liberal than others in the Kremlin; and he is not one of the *siloviki*, as he has no background in the security services. Several foreign leaders even cautiously welcomed his anointment. So did foreign investors, sending the Moscow stockmarket soaring.

Hopes dismayed

Yet it took just one day to dispel most of these hopes (see article). Mr Medvedev has depended entirely on Mr Putin's patronage throughout his short career. Although he is chairman of Gazprom, Russia's state-controlled energy giant, as well as first deputy prime minister, he has no power base of his own. It may be true that he has more tolerant instincts than some rivals in the Kremlin, and that he is less obviously in hock to the *siloviki*. But unless he unexpectedly turns into a more forceful personality, he will not easily be able to pursue his instincts. That will be all the more obvious if Mr Putin becomes his prime

minister, a position from which he is surely likely to remain, in effect, the ruler of the country.

Ever since he became acting president on the last day of 1999, Mr Putin has moved progressively to snuff out even the faintest flickers of democracy that he inherited from Boris Yeltsin. He has crushed opponents, emasculated the courts and parliament, eliminated independent broadcast media, scrapped the autonomy of Russia's regions and blatantly fixed elections. He has also brought most strategic industries, especially in the energy business, under state control. Abroad he has chosen to pursue an increasingly assertive, anti-Western foreign policy in the name of re-establishing Russia's greatness. These things can be expected to continue, only more so.

This does not mean that the lives of all Russians have deteriorated under Mr Putin. On the contrary, he has presided over an impressive economic recovery. Since 2000, growth has averaged 7% a year, and real GDP has risen by half. Russia is now one of the world's ten biggest economies. Between them, foreign-exchange reserves and the stabilisation fund are worth over $500 billion, up from nothing after the 1998 devaluation and default. Foreign investment may hit $45 billion this year and Russian companies are themselves increasingly investing abroad. All of this is reflected in rising living standards and a burgeoning middle class that is busily splashing out on cars, washing machines and holidays abroad.

The curse of oil

Yet the good times, which are based largely on the rise in the oil price under Mr Putin from $15 to over $90 a barrel, may not last. The outlook for the world economy is cloudier than it has been for many years. Even if the oil price does not fall, it is unlikely to go on rising as fast. Russia's economy has underlying structural weaknesses that are now becoming more apparent: entrenched inflation over 10% a year, public spending that needs to be reined in, a vulnerable banking system. Above all, Russian business is losing competitiveness as both costs and the rouble rise faster than productivity. There is no sign that either Mr Putin or Mr Medvedev has the appetite to embark on liberalising reforms to remedy such ills, when they have failed to do so during better times. The bigger risk is that growing state interference in the economy will exacerbate them.

So next year could be a tricky one for the awkward duumvirate that will by then be running Russia. If that creates tensions between them, a new instability could result: and history suggests that Russia cannot cope with two tsars. More likely, Mr Putin will go on ruling the roost at home, perhaps leaving foreign policy to Mr Medvedev. Here the test will be what Russia does, not what it says. And it is telling that, hard on the heels of this week's political shenanigans, the government formally renounced the Conventional Armed Forces in Europe treaty and, a day later, said that it would close down all British Council offices in Russia outside Moscow.

The West has only limited influence over today's increasingly hostile Russia. It will have to continue to work with it, whoever is in charge in the Kremlin, on such big foreign-policy issues as Iran, Kosovo and North Korea. Yet Western leaders should learn from the mistake that too many made during Mr Putin's first term, when they flattered him and deliberately kept quiet about democracy, human rights and the war in Chechnya. It is more honest, and will in the long run be more effective, to denounce the arrival of the corrupt autocracy that Operation Successor has announced so starkly.

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The ANC leadership election in South Africa

Flawed characters, flawed choice

Dec 13th 2007
From The Economist print edition

The former liberation movement is stunting what was Africa's most promising democracy

EPA

Get article background

IN THEORY, these are hopeful times in South African politics. After 50-odd years of backroom stitch-ups, the ruling African National Congress (ANC) holds a competitive leadership election next week. It is a dramatic face-off between the incumbent, President Thabo Mbeki (pictured on the right), and an iconoclastic challenger, ex-Vice-President Jacob Zuma (left). For those who say the country needs democracy in its nearly one-party politics, mustn't this be good? If Mr Zuma wins he is almost certain to be the ANC's candidate, and thus the favourite, to be president after the general election in 2009. If Mr Mbeki wins, though he cannot serve a third term as president, he will anoint his successor—and it won't be Mr Zuma.

Yet this is no model election. It is a contest between two deeply flawed candidates, neither of whom should be running the ANC or the country after next year. That the succession race has come to this reveals more about the limits than the advances of democracy in South Africa (see article).

Mr Zuma should have been ruled out on several counts. His dreadful views on sex were revealed during his trial for rape last year. He was acquitted, but claimed that he could tell by the way a woman sat whether she wanted to have sex with him and that his Zulu culture demanded he should oblige her; also that he could avoid contracting HIV by taking a shower. He may soon be charged again with corruption. Mr Mbeki is standing just to stop Mr Zuma. But Mr Mbeki has shown by his own autocratic ways and weird views on AIDS—which he seems to think is not caused by HIV—that he too should no longer be leading the ANC.

The country should now be starting a second phase of political transition. The first, presided over by Nelson Mandela, was to dismantle apartheid, reconcile the races and establish democracy. As the pre-eminent movement in the long struggle against white minority rule, the ANC, however organised, was inevitably going to take charge during this period. On the whole, it has done a good job. Now, however, the country should be moving to a new era of pluralist democracy, where criticism and dissent are welcomed for their own sake.

Sadly, Mr Mbeki has shown no inclination to rid the movement of its authoritarian traditions. If anything, it has become even more illiberal. Other possible candidates, such as Tokyo Sexwale or Cyril Ramaphosa, would probably do a better job as leader. But none has got a look-in.

A perilous fusion

This restriction of choice and debate within the ANC would not be so bad if it faced some competition. The electorate could just vote in another lot. But no group can challenge a movement that encompasses former freedom fighters, the trade unions and the South African Communist Party. And almost 14 years of unbroken power have given way to corruption, factionalism, paranoia and arrogance. Without a spell in opposition, the movement will be unable to purge or renew itself. Meanwhile, anyone who wants to get on knows it may be unwise to speak out. As criticism is bitten back, the ANC and the state risk fusing into a single entity.

Worryingly, the constitutional checks on the power of the ANC government are being slowly eroded. Parliament has become a rubber stamp; the public broadcaster has become a government mouthpiece; the intelligence and police services are sometimes partisan. A split in the movement might be welcome. Unfortunately, there is no sign that Mr Mbeki's increasing autocracy is regarded as sinister by many in the ANC. South Africa, so recently the moral giant of the continent, deserves a lot better.

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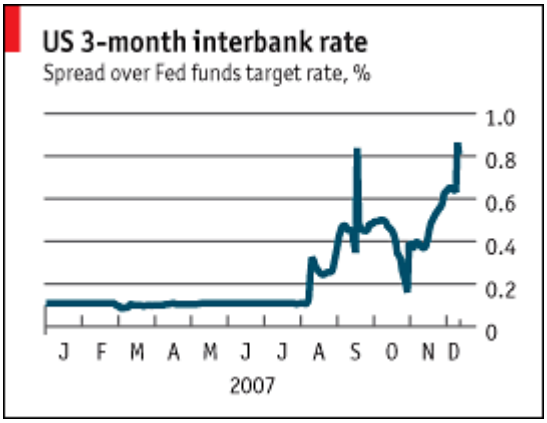
Central banks

A Christmas package for banks

Dec 13th 2007
From The Economist print edition

This attempt to sort out the money-market mess has its uses; but don't expect too much



IF AT first you don't succeed, try co-ordinated intervention. Leading central banks have each laboured on their own to clear the log jam in the money markets—and all have failed. The spread between the cost of borrowing for governments and that for banks has widened sharply in recent weeks. That suggests investors are warier than ever of lending to the banking system. The longer this goes on, the greater the fear that banks will drag the economy down by starving it of capital.

Christmas, when markets are closed and banks are tidying their year-end balance sheets, is always a time of sparse liquidity. This year confidence is especially fragile. The last thing the world needs is for some big bank to be scrabbling for cash on New Year's Eve. Hence this week's decision by five central banks to redirect some $100 billion of funding to the banking system—and to ensure that it can be had in dollars. Markets were torn between hope that money will at last get to those that need it and fear that the plan reveals how worried the central banks really are. They are right to be anxious: this is the authorities' best shot—and it is far from certain to work.

The plan helps explain why the Federal Reserve decided to cut interest rates by a quarter of a percentage point rather than a half (as many had hoped) on December 11th. Cuts in the official rate have proved a blunt instrument in solving the money-market crisis. Despite three reductions in the Fed funds rate, banks were still paying more on December 11th to borrow money for three months than they had been in March. Worse still, in their anxiety to rescue the financial system, central banks were endangering their anti-inflationary credentials. Headline inflation rates have stayed stubbornly elevated. The Fed reasoned—rightly—that money-market intervention was a more targeted remedy than a big rate cut would have been.

Nobody should doubt how urgently needed that remedy is. Banks have no problem borrowing money overnight, but they would be mad to rely exclusively on that as a source of funding. They need access to funding over longer periods, particularly three months. Yet those markets have been jammed as the normal providers of finance, the money-market funds, have been made skittish by losses on mortgage-related products. Central banks are trying to step into the breach.

Sick stigma

The plan is designed to deal with the things that have stymied such efforts so far. For instance, applying for help from a central bank has been seen as a sign of weakness—the financial equivalent of casting yourself as the little boy with “kick me” pinned to his shirt tail. By presenting the new package in the form of an auction, central banks hope to remove that stigma. Another disincentive for borrowers has been the penalty rates of interest charged by central banks (in particular, by the Bank of England) and the demand for very high-quality bonds as collateral. The new plan modestly relaxes such conditions.

Will that be enough? The Fed and the Bank of England have made it clear they are not adding overall liquidity to the markets (to the extent that they add money, they will take it away elsewhere). So far, the plan focuses on how to get money into the system, not how much. Yet the European Central Bank, which has been the most flexible in handling the money-market crisis, has had little more success than anyone else at reducing banks' borrowing costs. Above all, the package does not solve the fundamental reason why both investors and bankers are so reluctant to lend freely: the crippling lack of information about

potential losses on subprime mortgages and related structured-debt products. Even the banks themselves will remain reluctant to lend until they know how much capital they will need to sort out the mortgage mess.

Yet the package is surely worth a try. It is worth paying a high price to stave off a liquidity crisis over new year: better that weak banks are able to borrow at the same rates as strong ones than that they are not able to borrow at all. The package will give everyone breathing space to reassess the banks' balance sheets. The hope is that a peaceful Christmas will help sentiment improve in January. But don't be fooled: it is only a hope. If it is disappointed, the clamour for central banks to start cutting interest rates will start to mount once again.

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Barack Obama

The triumph of hope over experience?

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From The Economist print edition

Definitely not the finished product; but at least Democrats now have a hard choice to make

AP

ONLY two months ago, Hillary Clinton looked unbeatable. Her lead in the race to capture the Democratic nomination widened by the day. Some polls put her as much as 30 points clear of Barack Obama, and she led in every one of the early-primary states. All was sweet in Hillaryland.

No longer. Mr Obama is now ahead, by a slender margin, in Iowa, which in less than three weeks will be the first state to vote. This week he seemed to have eliminated the gap in New Hampshire, which will vote five days later (and where independents crucially can vote in the Democratic primary). Some polls now even show him ahead in South Carolina, the third important Democratic race, where until very recently Mrs Clinton was leading by more than 20 points. But Mrs Clinton still has a formidable machine behind her. For Mr Obama to sneak past her, he needs everything to go right (whilst she just needs him to trip up once); but there is now a real contest.

In principle, this is a good thing. Democrats deserve a choice. Even if Mrs Clinton prevails, it is better that she has been tested. But what about Mr Obama himself?

His rise is partly due to that familiar part of any presidential race: the front-runner's wobble. First, Mrs Clinton prevaricated during a debate; then she panicked—attacking Mr Obama personally, which has gone down very badly, and tacking abruptly to the left with a startling disavowal of the free-trade policies so effectively promoted by her husband. Meanwhile, though, Mr Obama has been picking up speed.

The bad news for Mr Obama is that he will now fall under the same degree of scrutiny that Mrs Clinton has endured for ages. But there also seems to have been a change in mood. Two months ago, this newspaper hazarded that the quality Americans most wanted was competence, and this remains the point on which the formidably intelligent and hard-working Mrs Clinton remains ahead. (If she has much less experience than she claims, she still has more than Mr Obama.) But the campaign is starting to focus on softer issues. Weary of “Bush-Clinton” partisan politics, Americans may prefer someone who can bring their country, and the world, together.

The audacity of hope—and its limitations

This plays to Mr Obama's strength: he has always been the candidate of “hope”. As America's first black president, he would show a new face to the world. As someone who was educated in Indonesia and has an understanding of Islam that no other candidate shares, he could do much to bridge the deadly gulf between Christian and Muslim states. He admits, bluntly, that “the world has lost trust in our purposes

and our principles”—though he still reserves the right to use unilateral force. At home, he would put an end to America's depressing and vicious version of medieval England's dynastic Wars of the Roses. He appeals to Republican voters far more than any other Democrat, especially the detested Mrs Clinton.

This is not just spin. A President Obama would turn preconceptions upside down: indeed he might be able to achieve far more both at home and abroad than any other candidate. But hope does not balance budgets, craft alliances or reform schools. It certainly does not prove that Mr Obama would be the best, or even a good, president.

Mr Obama cannot change his experience deficit; but he can change his substance deficit. His economic policies (like those of the other Democrats, it must be said) are crowd-pleasing stuff. He is iffy about free trade. He wants health insurance for all—and expects the rich to pay for it. He wants schools to get better, but he panders to his leftist base by eschewing merit pay for teachers and independent charter schools. On Iraq, he affects not to have noticed that the “surge” in and around Baghdad is producing palpable successes, and clings to the idea, beloved of his party base, that all troops should be withdrawn even before he putatively takes office.

There is something rather timid and unhopeful about all this. Mr Obama is not prepared to break ranks with his party in the same way that John McCain divides Republicans over immigration or Rudy Giuliani does over abortion. Where he has produced novel policies, they have sometimes been bizarre, such as his plan to fine mortgage-lenders who allow borrowers to get into debt, and to give the money to the “victims”.

Offering America a chance to heal its divisions is a powerful selling point. But like Mrs Clinton's competence, it is not enough. Mr Obama still needs to do more to show how he defines change, as opposed just to personifying it. If he can somehow do that, though, he will be a hard man to beat.

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The etiquette of telecommunications

Getting the message, at last

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From The Economist print edition

A parable of manners from Victorian dentists to modern airlines

Illustration by David Simonds

ON A May evening in 1864, several British politicians were disturbed by a knock at the door and the delivery of a telegram—a most unusual occurrence at such a late hour. Had war broken out? Had the queen been taken ill? They ripped open the envelopes and were surprised to find a message relating not to some national calamity, but to dentistry. Messrs Gabriel, of 27 Harley Street, advised that their dental practice would be open from 10am to 5pm until October. Infuriated, some of the recipients of this unsolicited message wrote to the *Times*. "I have never had any dealings with Messrs Gabriel," thundered one of them, "and beg to know by what right do they disturb me by a telegram which is simply the medium of advertisement?" The *Times* helpfully reprinted the offending telegram, providing its senders with further free publicity.

This was, notes Matthew Sweet, a historian, the first example of what is known today as "spam". It shows that new communications technologies have been prompting questions about etiquette ever since the advent of the telegraph in the 19th century. The pattern is always the same: a new technology emerges on the scene, and nobody can be quite sure how it will be employed, or the appropriate etiquette for its use. So users have to make up the rules as they go along.

When the telephone appeared in the 1870s, people worried about receiving calls from people to whom they had not been properly introduced. And what should one say when picking up the receiver? Alexander Graham Bell, the inventor of the telephone, suggested "Ahoy, ahoy". But as in many other respects, his ideas lost out to those of Thomas Edison, who preferred "Hello", an expression that was rarely used before the telephone but is now ubiquitous. Further social minefields awaited. In 1903 the trade journal *Telephony* reported an elderly woman's complaints about her niece, who received a phone call from a male friend while dressing. "The two of them stood talking to one another just as if they were entirely dressed and had stopped for a little chat on the street! I tell you this generation is too much for me," she grumbled.

Subsequent inventions have posed further tricky questions of etiquette. Is it appropriate to dump your boyfriend by fax? When sending a message to several friends by e-mail, should you put all of their addresses in the "To" field, and so reveal them to all the recipients? Or should you send the message to yourself and "BCC" everyone else? (Answer: b.) How should you respond if your boss "friends" you on Facebook? Does a thank-you letter count if it is sent electronically?

The technology that has done most to complicate matters, of course, is the mobile phone. Because it can be used almost anywhere, and is used by almost everyone (in the rich world at least), it has the greatest

potential for social disruption: bleeping inappropriately in theatres, churches and concert halls, subjecting bystanders to tedious diatribes on trains and buses, and distracting people in restaurants. No public event is now complete without a request that phones be switched off.

A decade after mobiles began to spread, the outlines of appropriate mobile etiquette are now clear, though there are regional variations. In some parts of Scandinavia it is customary to text someone to ask permission to call them; and making voice calls on trains is frowned upon in Japan, despite the fact that mobile phones work perfectly, even underground.

Good call

Given the industry's long history of introducing new gizmos without much thought for their social knock-on effects, the extension of mobile-phone coverage to aircraft, now under way (see article), represents a striking and welcome change. It is an unusual situation, for three reasons. Planes are one of the few remaining places where mobile phones do not work; they bring together people from different cultures; and airlines are in a position to enforce whatever in-flight rules they decide upon. They are treading carefully. Over the next few months they will allow passengers to use their phones on a handful of aircraft, limiting access in some cases to data (ie, text messages and e-mail), and asking for comments in order to choose the appropriate etiquette. No doubt there will still be unexpected social consequences, and some people will object to the outcome. Determining the right etiquette in advance will not be easy. But airlines should be applauded for trying.

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On Iran and nuclear weapons, nanotechnology, the Mariel boatlift, immigration, free speech

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From The Economist print edition

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A good estimate?

SIR – I read your leader on America's National Intelligence Estimate report about Iran halting its nuclear-weapons programme ("Pressure works ('high confidence')", December 8th). The findings of 16 intelligence agencies cannot be ignored. However, it is difficult to treat their conclusions with full confidence given the failings of these same agencies preceding the invasion of Iraq.

A more reliable source of intelligence would surely be the International Atomic Energy Agency, the only international authority qualified to study Iran's nuclear dossier. The IAEA was accurate in its assessment of Iraq's weapons capacity in 2003; it is continuing to conduct exhaustive inspections on all of Iran's nuclear-enrichment sites. Despite nearly 3,000 hours of inspections, it has found no evidence, past or present, that Iran diverted its nuclear programme to military purposes.

The claims in the NIE report that Iran had a nuclear-weapons programme should be treated with a degree of scepticism. But although the report does not fit neatly into Dick Cheney's plan for building a case for military intervention in Iran, the NIE assessment that Iran had a covert weaponisation programme in the past that could be restarted at any time works to the hawks' advantage. Combined with predictions that Iran could manufacture a nuclear warhead within two years, a new consensus of opinion could be built up to justify attacking Iran.

Debates around hypothetical timelines should not be allowed to distract us from the important task of diffusing this dangerous stand-off between those intent on military intervention and an Iranian government determined not to back down from its legitimate right to enrichment.

Stefan Simanowitz
Chairman
Westminster Committee on Iran
Brighton

SIR – Let us recall what the "pressure" mentioned in your leader really consisted of. The American-British attack on Saddam Hussein in 2003 ended his regime. The knock-on effect was that Libya stopped its nuclear-weapons programme. Now we learn that Iran halted its programme too. The pressure came from military credibility, not economic sanctions. It was the result of American and British troops being willing to die to overthrow a tyrant who actually did use WMD in the form of poison gas against Iranians and the Kurds.

William Thayer
San Diego

SIR – Once something is out of the bag it is always easy to repeat. Knowledge about nuclear bombs is widespread. The technologies to help assemble a bomb, such as computers and precision machinery, are sold on the internet. There are scores of nations that could develop a nuke if they wanted to. Iran has plenty of capable scientists and engineers. Short of total invasion, no military strikes or technological embargoes will stop such nations developing bombs if they want them.

Alec Cawley
Newbury, Berkshire

Technological advance

SIR – Your briefing on nanotechnology focused on important issues that will face us all in the immediate future ("A little risky business", November 24th). However, I disagree with one of the themes of the article, which is that "too few are trying to find out" how safe nanomaterials are. In fact, the governments of the OECD have recently launched a "sponsorship programme" in which they are committed to pay for safety tests on a range of nanomaterials that are currently in use or close to commercialisation.

A body of experts from governments and other interested parties who are managing the programme are also undertaking a review of existing OECD tests and risk-assessments to find out whether they are suitable for assessing the safety aspects of nanomaterials. We have published two substantial reports detailing such polices.

Peter Kearns
Principal administrator for nanosafety
Organisation for Economic Co-operation and Development
Paris

SIR – Around the same time that you ran your article on nanotechnology, other media reported that the European Commission is discussing a proposed ban on some types of genetically modified corn. Like biotechnology, nanotechnology holds tremendous potential. It promises to improve health care, to aid the production of clean water and energy, and to advance our IT infrastructure. It may be the single most important development of our age. However, nanotechnology will flourish only if governments and industry identify and manage the risks to workers, consumers and the environment from the outset.

Government oversight needs to be transparent and predictable both for companies and for those who invest in these businesses. A similar approach to agricultural biotechnology would possibly have helped us better manage that innovation. Let us hope that we can get it right with nanotechnology.

William Reilly
Administrator of the United States Environmental Protection Agency, 1989-93
San Francisco

The Mariel boatlift

SIR – The Cuban refugees who departed the port of Mariel in 1980 by and large did not "set off in flimsy rafts" ("Bye-bye embargo?", November 24th). Rather they were picked up at Mariel by all manner of fishing and recreational craft, which were piloted or rented by family members already in Florida. This was done with the permission of Fidel Castro, who took advantage of the opportunity to place inmates from his prisons and mental asylums among the departing refugees. There was a brief time when Mr Castro did turn a blind eye to those departing in rafts, but that was in 1994, not 1980.

William Griffith
Clarksburg, West Virginia

Immigration in Europe

SIR – If you have to attach the "xenophobia" label to opponents of immigration it would be good manners to cite some evidence ("The trouble with migrants", November 24th). Most opponents of immigration just want to preserve their country's identity and culture. They do not hate foreigners. As to the claim that immigrants can solve Europe's problem of ageing populations, migrants grow old just like everyone else. This is not much of a solution.

Ralph Musgrave
Durham

Rights and wrongs

SIR – The right to free speech of course means that Nick Griffin, leader of the right-wing British National Party, and David Irving, a Nazi apologist, or anyone else charitably described as half-deranged can speak their mind at the Oxford Union or wherever else they have been invited to debate ("Invite and insult",

December 1st). It does not mean, however, that those who issue the invitations should suspend their judgment. The self-publicising decision by the president of the Oxford Union to invite Messrs Griffin and Irving was pretentious and reprehensible.

Iain Smith
Monção, Portugal

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Iraq

Can a lull be turned into a real peace?

Dec 13th 2007 | BAGHDAD, BASRA AND FALLUJA
From The Economist print edition

The surge of American troops has dramatically reduced violence. But Iraq's politicians may still squander an obvious chance for reconciliation

AP

Get article background

AFTER more than three years as an interpreter for American troops in the city of Falluja, Dave (not his real name) recently had his hair cut for the first time by a local barber. Since then, several American marines based inside the city of some 300,000 people have also had their crew-cut domes locally shaved to a gleam. Six months ago they would have had their throats slit—and so, almost certainly, would the barber.

But times have changed dramatically. Once widely considered the most dangerous and xenophobic city in Iraq and one of the country's most resilient havens of al-Qaeda, Falluja is now enjoying a new, if tentative, peace. So, no less strikingly, is the whole of Anbar province, in which Falluja lies, and most of the Euphrates river valley. The Americans say that if you go north and north-west through Hit and Haditha and up to the border with Syria near the town of Qaim, it is clear that al-Qaeda has been chased out—with the co-operation of the local Sunnis and the tribal leaders. In those areas, which embrace the vast majority of Iraq's Sunni Arabs outside Baghdad, attacks against the American-led coalition forces have dropped more than tenfold compared with a year ago.

The peace in Falluja is fragile, as it is in the Sunni parts elsewhere. There is no knowing what would happen if the Americans left in a hurry. It is unclear whether al-Qaeda in Iraq (known in Western military circles as AQI) has been truly defeated or is biding its time. Nor is it certain that the local Sunni tribal leaders who have struck security deals with the Americans across Anbar province would, if the Americans left, make war or peace with the Shia-dominated government in Baghdad.

But however temporary it may prove to be, it is an extraordinary change. In the precinct of Nazal—one of Falluja's nine, each with a joint American-cum-Iraqi police station—locals watch warily as a dozen helmeted young American marines, their guns pointed at the ground, tramp slowly past, avoiding puddles of sewage and piles of rubbish (much favoured by insurgents as a place for planting roadside bombs), and smiling at the knots of ragged children who shout “Chocola, meester” and are sometimes given pencils instead.

After every ten steps or so, the marines swivel round and walk backwards, giving themselves a maximum field of vision. A couple of local Iraqi volunteers, clad in blue jeans and without helmets, accompany the patrol. Locals politely exchange *salaams*; veiled women with babes in arms retreat hastily behind high metal doors. But the marines say the mood has been transformed. No marine has been killed in Falluja since the summer's surge. The patrol stops from time to time as its leader, a fresh-faced corporal from Chicago, engages passers-by, via Dave, the newly coiffed interpreter from Baghdad, in amiably stilted badinage. A boy is asked about football. A shopkeeper talks about his oranges, and how business is only slowly improving. The Shia-led government in Baghdad, it is plainly believed, is loth to give much help to the Fallujans, with their reputation for Sunni extremism.

After the Americans' ten-day attack on Falluja in November 2004, much of the city was a mess of rubble; despite a spate of building that started in the summer, also thanks to the surge, the marks of destruction are still visible everywhere. At least 1,500 Islamist militants, most of them members of AQI, many of them foreign, were said to have been killed in the siege, but until this spring the city remained a smouldering hub of insurgency.

The turning point, apparently, was the al-Qaeda suicide-bombing of a policeman's funeral in May, when at least 27 locals were killed. Suddenly, it seems, the people began to react against al-Qaeda's excesses—the enforcement of strict dress codes, the banning of music, even (it is said) the cutting off of smokers' fingers—and were ready to endorse the local sheikhs' deals with the American army, even though it had pulverised their city.

Al-Qaeda on the defensive

Falluja is still not back to normal. A curfew remains in force. Just five entry points, guarded by American soldiers alongside Iraqi police, oversee access into the city. Each precinct is like a gated community. Every car must have an identity badge to be let in. Even so, a bombmaker occasionally gets through. “They're waiting and watching,” says an American lieutenant.

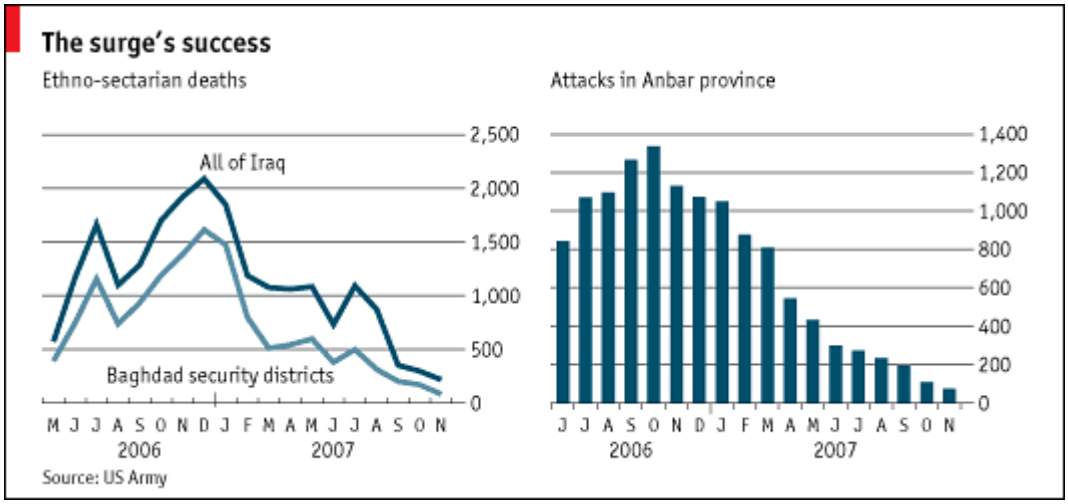
Moreover, the rest of Iraq, like Falluja, is still far more dangerous for Americans and other foreigners than it was in the first few months after the invasion of 2003, before the insurgency got going. The entire nerve-centre of the American administration, staffed by some 10,000 people, remains walled off in Baghdad's so-called “green zone”. Few foreign diplomats get out and about. Western journalists use a

web of Iraqi reporters, but their movements are still restricted. Several of Baghdad's best-known streets remain off-limits to traffic.

However, it is clear that the al-Qaeda part of the insurgency, which is manned almost entirely by Iraqis though its suicide-bombers and its strategists may still be foreign, has been hard hit. Although in November more than 20 civilians were killed on an average day, mainly by sectarian violence, that is far less than the toll a year ago, when the discovery of as many as 100 corpses at dawn was not unusual. An independent website, icasualties.org, while admitting that Iraqi civilian deaths are hard to count, puts the figure of Iraqi security forces and civilians killed in November at around 560, compared with more than 3,000 last February. American military deaths since October are less than a third of the figure a year ago.

All the indicators suggest that violence has subsided sharply nearly everywhere, not just in Anbar, but also in Baghdad. The border crossing to Syria near Qaim has opened after several years' closure. The oil pipeline from Kirkuk, which goes north into Turkey and should carry more than a fifth of Iraq's oil exports, has been flowing almost without a break for the first time in years; in 2006, it was open for barely 40 days. “We are close to a sustainable level of violence,” says the overall commander of the American-led forces, General David Petraeus. He means that fears of a murderous sectarian meltdown have receded, though he gives constant warning that things could slip back again.

Meanwhile, the Shia heartlands around Karbala and Najaf have been quiet since a bloody bout of intra-Shia sectarian violence in Karbala in August. Since September, when the British left the centre of Basra, Iraq's second city, which is 95% Shia, violence there too has dipped very sharply—and the British, now encamped at an airport outside the city, are being fired on some ten times less than before.



The Kurds are also at peace, despite the hiccup in October and November, when the Turkish army threatened to invade in force in order to clobber the Kurdistan Workers' Party (PKK), a group of Turkish-Kurdish guerrillas who use a remote and rugged strip of Iraqi Kurdistan's borderland as a haven. The exception is the disputed city of Kirkuk, where ethno-sectarian violence, mainly between Kurds and Sunni Arabs, shows no sign of abating.

But a bitter battle is still being fought upstream along the Tigris river valley and its tributaries, up to Mosul and beyond. The mixed-sect province of Diyala is probably today's bloodiest cockpit, where the Americans and their allies in the Iraqi security forces are fighting an array of Islamist and nationalist insurgents with al-Qaeda again to the fore.

The surge is by no means the sole reason for Iraq's improved security. A truce was called in August by the biggest and perhaps bravest of the Shia militias, the Mahdi Army, better known to the American-led coalition by its Arabic acronym JAM (from Jaish al-Mahdi), whose gunmen are known as JAMsters. This in turn may have helped turn Sunnis against al-Qaeda; facing fewer attacks from the Shia militias, they had less cause to embrace a ruthless Sunni protector.

The Sunni awakening

But the biggest reason is probably the agreements that the Americans have struck in Anbar province with

Sunni tribal leaders who have formed a group known as al-Sahwa (the Awakening). The Americans have armed some 65,000 Sunnis, with another 12,000 or so keen to sign up, in tribal battalions known in coalition-speak as “Concerned Local Citizens” (CLCs). These groups have also set up militias in some suburbs of Baghdad, mainly in the capital's west, where the Sunnis had hosted al-Qaeda with varying degrees of reluctance in the face of a sectarian onslaught. Some 12,000 Shia are also said to be poised to join CLC groups to co-operate with the Americans elsewhere.

The Americans are also freeing thousands of the 25,000-odd detainees they hold on suspicion of being insurgents (quite separately from the thousands more in Iraqi government custody). In the past few months some 3,000 have been let out, and imams have been helping to persuade those about to be freed to disavow AQI.

Yet another reason is what a senior British officer calls “a huge change in American behaviour” since the wily and thoughtful General Petraeus took up his post in January. Efforts to co-operate with local imams, to respect local culture, to hire more locals as interpreters and to increase the number of Arabic-speakers on American military and civilian staffs have borne fruit. It helps, too, that the American ambassador, Ryan Crocker, is an experienced Arabist who can also speak a bit of Farsi.

In Falluja, female officers are deployed to question and search women. American soldiers there almost never go into mosques. But befriending imams is now a priority. Earlier this week, one of Falluja's leading imams, Sheikh Nazar, who has been a critical ally against al-Qaeda, officiated at the opening of a revamped police station. “If we lose him, we lose the lot,” says a marine lieutenant.

AFP

Not quite ready to take over

It is plain that many of the CLC and tribal groups previously supported—indeed were part of—the national or “honourable” resistance to the occupation and have simply switched sides, seeing that, at any rate in the short run, the Americans could protect them against Shia militia depredations. But many insurgent groups apart from al-Qaeda are still fighting against the Americans and their allies. Some analysts have counted more than 75 of them. Certain prominent groups, such as the 1920 Revolutionary Brigades, named after an uprising soon after the British invented Iraq as a country, say they are simply waiting for the surge and the lull to end before erupting again. Others among these fractious bands are talking to the Americans, and may yet make peace.

A golden opportunity

What is clear, in any event, is that there is a gaping window of opportunity for economic, diplomatic and political progress. On the economic front, most development had been stymied by insecurity. Now projects are starting to go ahead. Electricity in Baghdad is on for up to 12 hours a day, against eight hours six months ago. Oil production, though still not at its pre-war level, has climbed from its trough of 1.75m barrels a day in January last year to more than 2.5m b/d today. Shops are reopening in many parts of Baghdad, and businessmen are hopeful, though foreign investors have yet to return.

On the diplomatic front there are hints of progress, too. American generals have cautiously noted an apparently greater readiness on the part of Syria to clamp down on al-Qaeda and the traffic of insurgents across its border. Iran, too, may be stanching the flow of weaponry to its Iraqi Shia militia friends. More broadly, there is a growing acceptance, both by Iraq's government and by the Americans, that political progress requires a regional framework in which Iraq's key neighbours—Saudi Arabia, Syria, Turkey and Iran—can play a part. The United Nations is back in greater numbers, with a high-class envoy, Staffan de Mistura, ready to help, especially with tricky issues such as provincial polls and the question of Kirkuk.

So Iraq's politicians at last have a chance to use the breathing space provided by the surge and by the Awakening to accommodate each other. Several issues are ripe for resolution. An oil law, to divide revenue equitably while giving regions (especially the Kurdish one) some freedom to grant exploration and management contracts locally, has been in the offing for more than a year. A revised deBaathification law, to bring back officials from the Saddam Hussein era into public service, is under scrutiny, along with a pensions law to give such officials a better deal.

Perhaps most important, a provincial-elections law is under discussion. This could lead the way to new

elections in the spring, enabling the newly “awakened” Sunnis of western and northern Iraq to empower themselves, especially in budget matters; last time round, in January 2005, they boycotted the elections. If they had real power in their provinces, they might drop their fierce opposition to devolution, which they have hitherto seen as a Western device to fragment their country.

Alas, there has so far been no sign that the government of Nuri al-Maliki is poised to grab this opportunity. Indeed, as an adviser to General Petraeus glumly describes it, “The politics is going nowhere.” The government still acts like a collection of competing fiefs, not a body that speaks with a national voice. Even among Shias, a paralysing factionalism has, if anything, got worse. The two principal Shia parties, Mr Maliki's Dawa and the better-organised Islamic Supreme Council of Iraq (ISCI), both fear the mass appeal of Muqtada al-Sadr, who has stayed out of government but often calls the shots on the streets.

Worse, Mr Maliki is still failing to reach out effectively to the Sunnis. The main Sunni block in parliament, which had a clutch of ministries in the ruling coalition, continues to take no part in government. Relations worsened recently when a son of Adnan al-Dulaimi, a leader of the biggest Sunni block in parliament, was arrested with some 30 of his father's personal guards on suspicion of involvement in insurgent bombings. To cap it all, the Sunnis are sorely divided too—and not just over al-Qaeda. The main Sunni block in parliament is deeply wary of the Awakening in Anbar, which may displace it as the authentic voice of the Sunnis nationwide.

Mr Maliki himself sounds particularly hostile to the notion of the CLCs—the mainly Sunni tribal militias—being inducted into the security forces or civil service as part of the price of peace. The new Shia establishment hates the arming of the Sunni militias because it thinks they may one day turn their guns against the Shias.

The current edgy lull is due in large measure to a series of local deals cut between the American army (and the British army in Basra) and groups close to the insurgents, with the centrally run state thereby diminished. Indeed, it can be argued that such deals are eroding the state and its fragile institutions still more. But it may be the only way to go.

A tendency to disagree

The fundamental flaw in Iraqi politics persists. The new Shia order remains loth, after centuries of oppression, to give the Sunnis a decent slice of power; and the minority Sunnis seem unable to accept second place in a devolved state. Last week a deputy prime minister, a Sunni, denied that Shias outnumber Sunni Arabs.

In his memoir of service as a British diplomat, among other places in Baghdad in the 1960s, Sir Donald Hawley characterises the Iraqis thus:

> [They] are a very talented, intellectual people and have no lack of experts on many subjects. They have a tendency, however, not to agree with one another and are no strangers to violence. Late at night after several strong whiskies, they could be very frank on many subjects, including themselves, and would sometimes grow quite maudlin. We are a very bad people and very difficult to govern. Did we not kill Ali [the Prophet Muhammad's son-in-law, whom the Shias revere]? Did we not kill Hussain [his son]? Very few have successfully dominated us...Nuri Said [the pro-British prime minister, assassinated in 1958] too knew how to govern Iraq,” they would say. It is an Iraqi trait to admire strength and to respect it for the stability it can give.

Mr Maliki has a last chance to change things for the better. Iraq's battered people are yearning for their politicians to make up. But some things do not change.

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Afghanistan

Policing a whirlwind

Dec 13th 2007 | KHOST AND LASHKAR GAR
From The Economist print edition

As foreign troops become more efficient, government is still the problem

Pfc

Get article background

THEY came on foot, by lorry and by helicopter to the great tents at the junction of two dry river beds at Charbaran. Bearded men whirled rapturously to the sound of a drumbeat, kicking up a cloud of fine dust over the American soldiers around them.

This *shura*, or tribal council, was the culmination of Operation Attal, designed to clear the Taliban from three districts in Paktika, a troubled province bordering Pakistan. Three months earlier Charbaran's district centre—a government office-cum-police station—had been torched by the Taliban and the area was said to be a training ground for the insurgents. Now it has been rebuilt with stout sandbagged fortifications and artillery for protection.

In a bloody year that has seen more Western soldiers killed than at any time since they toppled the Taliban in 2001, Operation Attal, which lasted three weeks, was uneventful. Hardly a shot was fired as the Taliban melted away before thousands of Afghan and American soldiers. But for the Americans success these days is measured less by the number of Taliban killed, and more by the number of Afghans who overcome their loyalty to the Taliban, or fear of them, to attend such a meeting. The Americans had been hoping for 200 guests; about 1,500 people came. It was billed as an Afghan reconciliation between local tribes and the central government. The choreography, however, was all American: American soldiers rebuilt the district centre, erected the tents, bulldozed new roads, brought the dignitaries by helicopter and even supplied a portrait of President Hamid Karzai.

One elder complained about the broken promises of development, and about the Americans surrounding them with armoured Humvees and roaring jets. He also wanted to get the tribe's confiscated weapons back. The 36-year-old governor, Akram Khapalwak, was having none of it. He demanded to know why the area's Kharoti tribe had allowed the destruction of the district centre and the theft of government vehicles. What was the point in building schools when teachers were being intimidated? He said $1m had been given to the Kharoti for schools, clinics and water projects, but there was little to show for it. “You thieves,” said the governor.

The recriminations over, lunch was served. The elders later agreed to provide 30 of their sons for the Afghan police force: a hopeful sign that the tribesmen were coming over to the government's side.

Operation Attal was remarkable for another reason. It was the first big operation planned and executed by the Afghan National Army, with more than 5,000 Afghan soldiers supported by about 400 Americans from the 1-503rd airborne infantry regiment. In the operations centre near Gardez, American officers sat in the second row, behind Afghan staff officers.

It was Afghan forces who searched homes while the Americans covered their backs. And behind the front-line troops followed lorry-loads of humanitarian supplies. The Americans delivered carpets and sound systems for the mosques; Korans, food, clothes and blankets against the onset of winter; hand-cranked radios to hear government broadcasts; doctors and veterinary surgeons. None of this is guaranteed to win support, but it helps.

American soldiers are still involved in a lot of shooting, particularly along the border with Pakistan. Indeed, across the country, violence has inexorably got worse. This year has seen a record number of suicide-bombings as well as a 20% increase in Taliban attacks, according to the United Nations. The insurgency has spread from the badlands along the frontier with Pakistan to much of the country's Pushtu-speaking belt, the Taliban's support base. Kabul is a regular target. Although far more American soldiers have been killed in Iraq, many more bombs fall in Afghanistan.

The Taliban can bomb, ambush and intimidate, but cannot conquer territory held by Western forces. The question is whether they can drain NATO's will to stay on. As one senior Western diplomat admits: “Failure is an option.”

Non-kinetic energy

The mistakes of the past six years of fighting in Afghanistan—principally the Americans' decision to have only a “light footprint” and the costly diversion into Iraq—have changed the mindset of American military commanders. They now regard “kinetic” actions (ie, fighting) as a distraction, a preliminary “shaping” operation at best. “The decisive operation is non-kinetic,” says Colonel Martin Schweitzer, commander of Task Force Fury, responsible for six south-eastern provinces. His focus is training Afghan forces, building roads, schools and clinics and, above all, getting the government to “start addressing the needs of the people”.

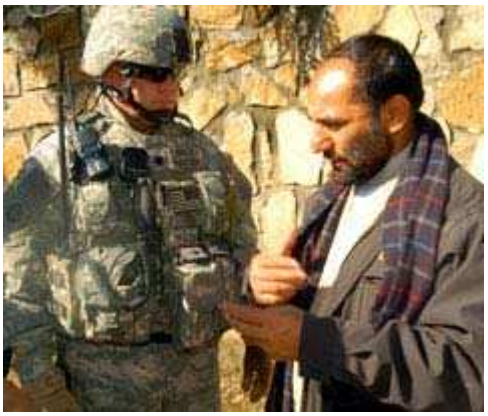
He has schooled himself in the ways of Pushtunwali, the Pushtun tribal code of honour, and has its main tenets on his wall. Next door to his office, a group of anthropologists and sociologists known as the “human-terrain team” provides him with valuable intelligence, not on the enemy but on the society in which they mingle. Colonel Schweitzer says what he needs is not more troops but more “non-uniformed instruments of power: diplomatic, information and economic”, especially agronomists and water engineers.

The colonel reckons that of the 92 districts in his area, the number rejecting the Taliban has grown from 19 to 58 in less than a year. The change is palpable around his own headquarters at Forward Operating Base Salerno, outside the city of Khost. Until last year it used to be attacked so often that soldiers called it “Rocket City”. No longer. Rockets are now a rarity, wild potshots fired from Pakistan. Khost's progress against the tide of violence is heartening, especially since it lies across the frontier from North Waziristan, the main haven for the Taliban and al-Qaeda in Pakistan.

The Americans say the success is all due to the governor, Arsala Jamal. “He is phenomenal. The governor is the centrepiece. We take directives from him,” says Lieutenant-Colonel Scott Custer (descended from George Armstrong Custer, the cavalry officer who lost the battle of Little Bighorn) of the 2-321st Airborne Field Artillery Regiment, in charge of Khost. The name of his strategy says it all: “Protect the Quarterback” (a reference to the vital playmaker in American football who needs shielding by his team). It involves creating concentric circles of security around Khost of Afghan police and army, with the Americans on the outer ring.

With better security, and with the funds provided by the American army, Governor Jamal is able to show progress. “The whole game is about confidence-building,” he says. “I will never change the minds of the bad guys, and the good guys will stay with me. Better security builds the confidence of people in the middle.”

Pfc



Custer and his quarterback

The Taliban hate him as much as the Americans love him. Suicide-bombers have tried to kill him at least four times since he was appointed as governor last year. One of his would-be killers was a 14-year-old boy from Pakistan who was captured and pardoned.

Judging from American intelligence intercepts, the Taliban seem rattled. “There is a big problem now,” one Talib is heard to say. “Half [of the people] are with us and the other half are against us.” Another wrestles with self-doubt: “I hope God directs me in the right path. I am not sure if I should do this against my own Afghans. There is no point in fighting. Who is the enemy here? We don't have an enemy.”

Senior British officers, who until recently regarded themselves as experts in counter-insurgency, marvel at the speed with which the American army is learning imperial policing. “It is a case of the son surpassing the father,” says one British officer. Similar changes are taking place in the British-controlled province of Helmand. Afghan troops have been at the fore of a joint operation with British and American forces that retook Musa Qala, the only sizeable town controlled by the Taliban, on December 11th.

The operation, which involved the defection of one Taliban commander, will cheer the British after a year of intense but inconclusive fighting. Yet the army now finds itself pretty much back to where it was in 2006: parcelled out across Helmand's districts, with exposed supply lines. The British may have more soldiers, and their outpost may be better protected. But the question is whether Afghan forces are able to hold the ground on their own. One important objective in Helmand has been to reopen the road leading to the Kajaki hydroelectric plant to bring up a new turbine and increase the electricity supply, but

that is still a distant prospect.

In the neighbouring province of Kandahar, Canadian forces have also struggled time and again to recapture the same ground. Fighting the Taliban, they quip, is the military equivalent of “mowing the lawn”. In contrast with the American sector farther east, where troops are fighting right up to the border with Pakistan, the British and Canadians do not have enough forces to secure their section of the frontier, and have abandoned a large swathe of the south to the Taliban.

This year has seen a mini-surge of Western forces, notably from America, Britain, Poland and Denmark. Germany and the Netherlands have decided to stay in Afghanistan, averting a NATO split. There have been successes too, notably the killing of scores of insurgent commanders. According to the UN, this has forced the Taliban to appoint Pakistanis to replace some of them. But the Taliban have an inexhaustible supply of recruits, and a haven in Pakistan in which to organise. They are reinforced by foreign fighters linked to al-Qaeda, including Chechens, Uzbeks and Turks, who are highly motivated and surprisingly well equipped. As the Taliban have been pressed in one area, they have moved to cause mayhem elsewhere.

The Western effort is fragmented. Even close military allies such as Britain and America have had rows about tactics. There are two separate but overlapping commands, NATO's International Security Assistance Force (ISAF) and America's Combined Joint Task Force 82. Most training is conducted by another American command. However, co-ordination has improved with the appointment of an American, General Dan McNeill, to head ISAF. The old distinction between “stabilisation”, done by NATO, and “counter-terrorism”, done by America, is blurring.

On the ground, though, each contingent is fighting its own separate war and promoting its separate vision of reconstruction. The fact that most countries rotate their units every six months or so makes continuity difficult. Americans currently serve 15-month tours, a consequence of the acute overstretch of the American army, but it means that commanders have time to learn and adapt.

The state of state-building

The problem in Afghanistan is not so much the resurgence of the Taliban, but the weakness of the Afghan government. The economy has grown briskly in recent years, but this has only moved Afghanistan from being crushingly poor to extremely poor. Six million children are now in school, but 2m still get no education.

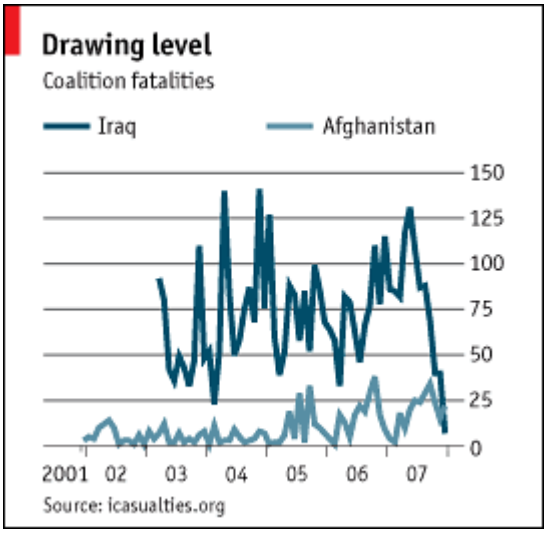
Mr Karzai's government is dependent on foreign aid for about half of its budget. Much of the government is ineffective and often corrupt. One Western diplomat reckons there are just 200 competent people in the whole of the Afghan bureaucracy. The administration of provinces and districts, often the only contact between villagers and the government, is even more rickety. Provincial governors symbolise the state, but policies and budgets are controlled by ministries in Kabul.

The political balance in Kabul has become more uncertain. The Afghan government is essentially a fusion of the anti-Taliban Northern Alliance of warlords, dominated by ethnic Tajiks, with a Pushtun head in the form of Mr Karzai. Not only have many of the Pushtun tribes risen up against the government, but members of the Northern Alliance have now formed a political opposition movement with royalists and ex-communists.

Whether by design or by chance, the UN does not fill the vacuum in governance. Donors are at odds too. Britain gives most of its aid directly to the Afghan government, but America, by far the biggest donor, worries about corruption and prefers to entrust its aid projects to private American contractors.

Much of the development work falls by default to army officers, working though civil-military groups known as “provincial reconstruction teams” (PRTs). Development charities such as Oxfam in Britain complain this runs against good practice in aid work; it focuses on short-term fixes rather than long-term development, results in vastly different levels of spending (the American PRTs are richer than the others) and blurs the line between soldiering and traditional aid work. There are many stories of armies building schools without teachers, and clinics without medicines. Yet imperfect as the PRT system may be,

military commanders say they have little choice but to rely on them. Traditional aid workers will not, or cannot, venture into the more dangerous areas of the country.



Arguably the biggest danger to the future of Afghanistan comes not from the external Taliban enemy but from two interconnected internal ones: corruption and opium. The police are too often regarded as predators rather than protectors. The appointment of police chiefs, particularly in posts along lucrative drugs-smuggling routes, is rife with corruption. The government and donors are attempting, with mixed success, to clean up the force by weeding out tarnished or unqualified officers, and raising police salaries to match those of the army. And once again, foreign soldiers are stepping in. For instance, America's 1-503rd infantry regiment has used a former senior FBI investigator to arrest an Afghan commander in Paktika accused of funding the Taliban.

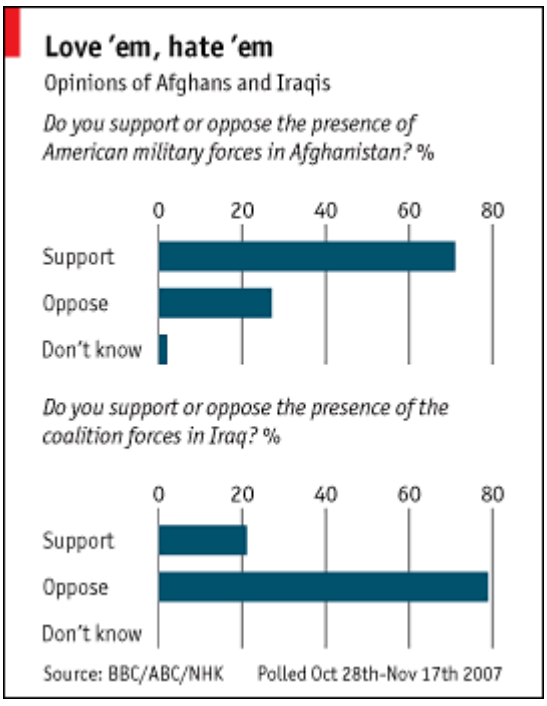
The bigger source of money for the Taliban is illicit poppy cultivation. Afghanistan produces 92% of the world's opium-related drugs. This year's record crop came overwhelmingly from Helmand, as well as other embattled regions. The drugs trade makes up about one-third of Afghanistan's GDP. ISAF commanders, who had avoided involvement in counter-narcotics, now acknowledge that insurgents and drugs-smugglers operate symbiotically and must be tackled together.

Here too, views are split. The American ambassador to Kabul, William Wood, is an enthusiastic supporter of aerial herbicide spraying to eradicate the crop. The British, in charge of overseeing the fight against opium, worry that this will turn the farmers against the Western forces. So far there has been a messy compromise: limited manual eradication that has been beset by corruption. It is not just the Taliban who benefit from opium; members of the government, even close relatives of Mr Karzai, are routinely accused of being drugs lords. In the long run, the answer lies in stability and rural development. In the short term, few actions would make the government more popular than the prosecution of some big bosses of the opium trade.

The West's best weapon

Like the Greeks, the British and the Soviets before them, America and its allies are discovering the old adage that Afghanistan is easy to invade, but difficult to control. Can they defy history? Perhaps, but only if they accept that a military victory is not possible and that they will have to stay for a long time.

Western countries still enjoy an important asset: the support of ordinary Afghans who have no desire to return to the harshness of Taliban rule or to the civil wars of the past. Recent polls (see chart) show that Afghans are much more strongly in favour of foreign forces than Iraqis. However, growing insecurity and civilian casualties in air raids are eroding the West's position, especially in the south.



Western opinion is just as important. Gordon Brown, Britain's prime minister, was right to announce on December 12th his plan for "Afghanisation" of the military campaign, gradually focusing more on mentoring and training Afghan forces and economic development. He said an effort would be made both locally to recruit armed village guards and encourage Taliban to give up their weapons, and regionally to improve co-operation.

Given the shortage of Western troops, Afghanistan's best hope lies in expanding and improving its own forces. Afghan soldiers are respected both as symbols of the nation and as tough fighters; but the Afghan army, which will grow to 70,000 next year, needs to be greatly increased. For years it will need to be partnered with Western units able to provide close air support, transport and medical evacuations. It makes sense to give ISAF

more of an Afghan complexion, with plans to appoint an Afghan general to help co-ordinate operations. The Afghan police will need even more money and training. Once again it is America that has taken on the main burden of training the police, while Europe's effort has been half-hearted.

Above all the Afghan government—particularly in the provinces and districts—needs to be made more effective. Mr Karzai complains that he gets too much contradictory advice from the 40-odd allies in ISAF. The appointment of a strong international civil co-ordinator to energise the reconstruction effort, and even to give political direction for the military campaign, is long overdue.

Paddy Ashdown, the British politician and former soldier who served as the international overseer of Bosnia, is the leading candidate to become the new UN chief. He should also be “double-hatted” as the NATO civilian representative (and perhaps also as the European envoy). Some worry that such a “super-envoy” would either undermine the authority of Mr Karzai, or be ineffective because of American predominance. There are risks in a foreigner meddling in Afghanistan's intricate tribal power game. But the bigger risk is to leave Afghanistan violently adrift.

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Immigration and the presidential race

Cooking up a row

Dec 13th 2007 | LOS ANGELES AND WASHINGTON, DC
From The Economist print edition

AP

Illegal immigration is one of the hottest issues of the election season

NO SUBJECT has discombobulated this year's presidential debates as much as immigration. Hillary Clinton's recent fall from grace dates from her refusal to give a straight answer to a question about whether she supports allowing illegal immigrants to have driving licences. On the Republican side, some of the testiest exchanges of the political season have been between Mitt Romney and Rudy Giuliani over illegal immigrants.

Mr Romney accuses Mr Giuliani of running a “sanctuary city” when he was mayor of New York. Mr Giuliani accuses Mr Romney of living in a “sanctuary mansion” because the firm that he employs to do his gardening employs illegals (Mr Romney retorted that he could not be expected to verify the immigration status of everyone with a “funny accent” and later sacked the company). All very childish. But all very telling too.

The rise of illegal immigration as an election issue is one of the most remarkable changes in American politics in recent decades. George Bush and Al Gore hardly discussed the subject—they both agreed that America needed to do a better job of providing illegal immigrants with a path to citizenship. The same was true of Mr Bush and John Kerry.

The subject has nevertheless become a red-hot issue, dangerous to anyone who touches it. There are two obvious reasons for this. One is numbers: there are now an estimated 12m illegal immigrants living in the United States, and at least another half-million enter the country each year. America's growing Hispanic population is also spreading across the country—even reaching the all-important early-voting states of Iowa, New Hampshire and South Carolina. The other reason is the rise of anxiety about globalisation. A recent Pew Research Centre report shows that America has seen the biggest rise in worries about trade of any rich country since 2002. This is producing a populist backlash against both immigration and “broken borders”.

Twist and shout

The mainstream Republican candidates are all on record as supporting fair-minded “comprehensive” immigration reform. John McCain sponsored a reform bill together with his Democratic colleague, Ted Kennedy. Mr Romney mocked the idea that you could deport 12m people. As mayor of New York, Mr Giuliani denounced federal immigration laws as harsh and unfair. As governor of Arkansas, Mike

Huckabee supported allowing the children of illegal immigrants to claim cheap in-state tuition. As a senator for Tennessee, Fred Thompson supported an increase in the number of visas available for agricultural workers.

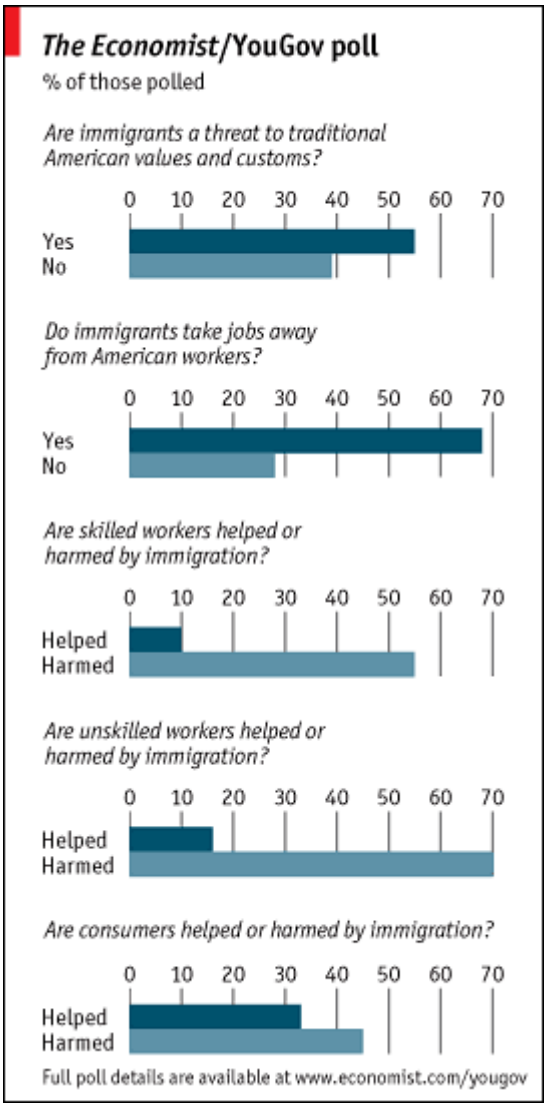
The most outspoken “restrictionist” on the platform is Tom Tancredo, an obscure Republican congressman from Colorado. Mr Tancredo has made immigration reform—which to him means sending the 12m back home—the centrepiece of his campaign. He has produced advertisements linking illegal immigrants to terrorism and gang violence.

Flaky stuff. But Mr Tancredo speaks for a sizeable portion of the Republican base. He helped to replace Mr McCain's immigration-reform bill with a harsher measure that authorised the building of a 700-mile (1,100km) fence along the Mexican border. And he—or at least Tancredoism—is having a remarkable influence on the Republican debate.

The most shameless flip-flopper on immigration is Mr Romney. He now echoes Mr Tancredo's talk of “amnesty” and criticises his rivals—particularly Messrs Giuliani and Huckabee—for being soft on immigration. But others have followed in his direction. Mr Giuliani emphasises border security. Mr Huckabee has produced a “secure America plan”. Mr Thompson threatens to “punish employers” who hire illegals. Even Mr McCain has hardened his line on immigration, though he continues to warn his party against demonising immigrants. Mr Tancredo now accuses his rivals of trying to “out-Tancredo Tancredo”.

This represents a repudiation of Mr Bush's strategy of welcoming Latinos into the Republican tent by supporting immigration reform. It also carries risks for the Republicans in the 2008 election—and indeed in future elections. Latinos are the fastest growing electoral block in the country. The Republicans could end up losing five Latino-rich states that Mr Bush won in 2004: Florida, Arizona, New Mexico, Nevada and Colorado.

The Democratic candidates have been much more consistent in their support for comprehensive immigration reform. Every senator on the platform supported Mr McCain's legislation, for example. But they are also aware that the subject is a bear trap. Only two mainstream candidates, Mr Obama and Bill Richardson, have come out in favour of allowing illegal immigrants to obtain driving licences (Mrs Clinton resolved her internal debate by deciding against the idea). The mainstream candidates have been careful to avoid calling illegals “undocumented workers”, the formulation favoured by pro-immigrant pressure groups in their party.



They are right to be nervous. Most Americans are ambivalent about illegal immigration—proud of America's history as an immigrant-friendly country but hostile to anything that sanctions breaking the law and worried about the economic impact of immigration. The latest *Economist*/YouGov poll (see chart) reveals a striking degree of concern about the threat that immigration poses both to “traditional American values” and economic well-being. Illegal immigrants also place huge burdens on America's hospitals, schools and prisons (there are, for instance, around 20,000 of them in California's jails).

Worries about globalisation are strong among two of the Democratic Party's core constituencies—blue-collar workers and blacks. Some working-class Americans must compete for jobs with people who are in the country illegally. In California, English-speakers are fleeing urban schools where more than 70% of the children are Hispanics, forking out for private schools or homes in the suburbs.

The driving-licence question is particularly dangerous for Democrats. Only 22% of the voters in a recent *Los Angeles Times*/Bloomberg poll supported allowing illegal immigrants to get licences. Eliot Spitzer, the governor of New York, saw his

popularity collapse when he endorsed the idea. He has now retreated.

This adds up to a big potential difficulty for Mr Obama in the election. James Carville, one of the most astute Democratic operatives, gives warning that “the centrality of illegal immigration to the current discontent about the direction of the country may be taking us back again to a ‘welfare moment'”—referring to Bill Clinton's decision to break with his party's base in supporting welfare reform.

The problem of illegal immigration will continue to haunt the presidential race. Rightly so: no country should have 12m people living illegally within its borders. But awkwardly so from the perspective of the candidates: the issue pulls Americans in all sorts of contradictory directions. No wonder most politicians keep trying to duck the question—and no wonder the voters will not let them.

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Immigration in Texas

Not welcome here

Dec 13th 2007 | AUSTIN
From The Economist print edition

Local action against illegal immigration

IN SEPTEMBER 2006 the city of Irving, close to Dallas, decided that it wanted to help fight illegal immigration. So it signed up for the Criminal Alien Programme (CAP). The programme, run by the Immigration and Customs agency, asks local law officials to give them a call if they suspect someone they have arrested may be an illegal immigrant.

Irving is not the only city to have joined, but it is probably the most enthusiastic. Since CAP's inception, some 1,700 people from Irving, a city of officially about 200,000 souls, have been handed over for deportation. Opposition to CAP has suffered some public-relations setbacks. In November an activist, Carlos Quintanilla, was arrested after a policeman spotted him giving a television interview on East Irving Boulevard. He had seven outstanding warrants. But such moments aside, the programme's opponents are right to be concerned about it. They argue that it encourages racial profiling, is too punitive and harms families. No reliable measure exists of how many people have left the city out of fear or frustration, but the local school district says it has lost hundreds of students this year.

Objecting from the other side are people who say that Irving policemen should not be asked to shoulder a federal task. In November the federal government asked north Texas officials to stop detaining people over traffic violations and certain misdemeanours, such as bouncing a cheque. There were too many referrals, they said, and not enough resources to look at them all.

So the programme has its problems. And Irving is just one of several places in the Dallas-Fort Worth area to struggle with its response to illegal immigration. City commissioners in Collin County recently announced that non-profit clinics will not receive county money if they treat illegal immigrants. In May the suburb of Farmers Branch approved an ordinance that would require landlords to verify the legal status of prospective tenants. Landlords are contesting the ban, saying that it puts an undue burden on them, and lawsuits have prevented it from taking effect.

Understandably, people who are frustrated by federal inaction on immigration may turn to local initiatives. But no one benefits when these are poorly conceived and arbitrarily applied.

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Faith and politics

Baptist v Mormon

Dec 13th 2007 | COLLEGE STATION
From The Economist print edition

The Republican battle for the religious vote gets rough

Reuters

Presidential, but under pressure

A HANDFUL of protesters stood outside George Bush senior's presidential library. One handed out anti-Mormon pamphlets; another held up a pair of flip-flops. Inside, Mitt Romney gave a long-awaited speech, hoping to reassure religious Republicans that they can safely vote for a Mormon.

He sorely needed to strike the right note. Many Republican primary voters, especially evangelical Christians, distrust his faith. In recent weeks, Mr Romney has lost his poll lead in Iowa and South Carolina to Mike Huckabee, a former governor of Arkansas and, more important, a charismatic, guitar-playing Baptist preacher.

In his speech on December 6th, Mr Romney used the word “Mormon” only once. He mentioned only the Mormon beliefs which other Christians share, such as that Jesus is the son of God. Rather than getting entangled in theology, he made three broad points.

If elected, he said, he would “serve no one religion, no one group, no one cause and no one interest”. Echoing John Kennedy's promise in 1960 not to take orders from the pope, he said that neither his church nor any other would tell him what to do.

But whereas Kennedy said he believed in the “absolute” separation of church and state, Mr Romney qualified that a little. The founders barred the establishment of a state religion, he said, but “they did not countenance the elimination of religion from the public square.” This was a sop to Christians who fret that militant secularists have gone too far in banning, for example, voluntary prayer in public schools.

Mr Romney argued that a president's specific denomination is unimportant, so long as he has one. He embraced “our nation's symphony of faith”, praising the profundity of Catholic ceremony, the ancient traditions of the Jews and the commitment to frequent prayer of the Muslims. He contrasted America's tradition of lively religious liberty with the deadening effect of state sponsorship in Europe. “I have visited many of the magnificent cathedrals in Europe. They are so inspired...so grand...so empty.” And he promised to stand up to the other extreme, the theocratic tyranny of violent *jihad*.

There was something for everyone in the speech, except atheists. Jacques Berlinerblau, the author of “Thumpin' It: The Use and Abuse of the Bible in Today's Presidential Politics”, reckons that unbelieving Americans will feel excluded by lines such as “Freedom requires religion just as religion requires

freedom.” Pressed, Mr Romney admits he has no problem with atheists. But many of the conservative voters he is trying to woo do.

And thanks to those voters Mr Huckabee's surge continues. Many evangelicals plainly feel more comfortable backing one of their own. Mr Huckabee himself stresses that no one should hold Mr Romney's religion against him. Perish the thought. But he bills himself as a Christian candidate, ignores the question when asked if Mr Romney is Christian too, and asks questions like: “Don't Mormons believe that Jesus and the devil are brothers?” (The Mormon church says this is a question often asked by those who wish to denigrate Mormonism; it refers to the Mormon belief that God is the father of all.)

Mr Romney cannot plausibly hope that evangelicals will like him better than Mr Huckabee. But he might persuade them that Mr Huckabee is unelectable nationally. Free-market types gasp at the Arkansan's protectionist rhetoric. Deficit hawks shudder at his plan to abolish income tax. And Democrats salivate at the prospect of fighting a man who, however amiable, does not believe in evolution and was still arguing in the early 1990s that people with AIDS should be isolated. Evangelicals may love a hollering Southern preacher; swing voters are not so sure.

Mr Romney launched his first television spot attacking Mr Huckabee in Iowa this week, accusing him of being soft on illegal immigration. In fact, both men, while governors, took a moderate and humane approach to illegals. But that is not what the conservative caucus-goers want to hear. It is shaping up to be a dirty, messy campaign.

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Criminal justice

Powdered wigs

Dec 13th 2007 | LOS ANGELES
From The Economist print edition

The Supreme Court calls a retreat in the drug wars

SINCE 1970, when the Controlled Substances Act was enacted, the number of people arrested for drug offences has risen from 416,000 to 1,890,000 a year. Prisons are bursting at the seams: California's are at 191% of their official capacity. And drugs are both cheaper and more plentiful. Reversing this unlucky campaign will be no easier than staging a tidy withdrawal from Iraq. Yet this week judges took an important step in that direction.

On December 10th the Supreme Court issued lenient rulings in two drug cases. The first was that of a small-time crack-cocaine dealer, Derrick Kimbrough, who had been sentenced to 15 years in prison. Although hardly a slap on the wrist, that was between four and seven-and-a-half years less than national sentencing guidelines dictated. The other case concerned Brian Gall, an otherwise upstanding fellow who had briefly traded ecstasy while a student at university. He, too, received a sentence more lenient than the guidelines suggested. Higher courts objected; but, by a seven-to-two margin in both cases, the judges upheld the milder sentences.

If that was a tactical retreat in the war on drugs, the following day brought a headlong flight. The sentencing commission, which sets the guidelines that judges are supposed to follow, voted to reduce retroactively sentences for crack-dealing. Some 2,500 convicts will be let out next year, and almost 20,000 will be able to apply for shorter sentences.

The Supreme Court cases turned on the issue of whether judicial discretion is more important than consistency in sentencing. But other issues intruded. The guidelines, which were laid down in 1986, were supposed to make punishment more predictable. Yet they also opened a racially tinged rift between sentences for trafficking different types of cocaine. When weighing a dealer's offence, judges have been expected to treat a gram of crack as equivalent to 100 grams (3.5 ounces) of powder. The effect has been to stuff the prisons with blacks, who are two-and-a-half times as likely as whites to smoke crack.

The judges' rulings do not mean an end to harsh sentencing. They allow more leeway rather than enforcing leniency, and do not apply directly to the state courts where most drug cases are heard. Yet they set a more moderate tone—a welcome contrast to the viciousness that has characterised the drug wars so far.

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The Democrats and the president

The do-nothing Congress

Dec 13th 2007 | WASHINGTON, DC
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But whose fault is that?

THE Democrats took control of Congress nearly a year ago with schemes to pump cash into domestic programmes, from low-income housing to cancer research. It hasn't quite gone according to plan. George Bush has waved his veto pen at the Democrats' recent budget proposals, accepting only a fat defence-spending bill. The result has been a stalemate, with the Democrats struggling to come up with a budget that will get past the president's desk, with only a week left before the Christmas recess in which to finish the job.

Indeed, frustrated ambition has marked the Democrats' majority reign so far. In the summer they failed to make Mr Bush accept a deadline for withdrawing troops from Iraq. In October the president stopped them expanding a popular children's health-care programme. The Senate has just voted to waive its "pay-as-you-go" rule, which requires tax cuts to be offset by other revenue, thanks to filibustering by the Republican contingent. The federal budget is months overdue, and it appears that the Democrats will have to give in to many of Mr Bush's spending demands, even at the expense of the domestic programmes they wanted to augment. Will voters punish the Democrats at the 2008 election for Congress's disappointing year, or will they whack the Republicans for their obstructionism?

As far as the budget goes, the Republican minority clearly hopes the blame will rebound on the Democrats. Mr Bush has suddenly and conveniently adopted the language of fiscal restraint. He has argued that the Democrats' budget plan, which called for a small increase in domestic spending, was excessive and wasteful. He has doggedly stuck to his own budget outline, which calls for $23 billion less domestic expenditure than Congress's first plan, even as the Democrats have offered to meet him somewhere in between. (The Democrats' first proposed discretionary budget came to $956 billion, next to which the $23 billion that is causing the problem looks pretty small.) Meanwhile, the president's defence request is a 10% increase on last year's at $481 billion—and that excludes $196 billion for the campaigns in Iraq and Afghanistan.

Republicans also may be holding the budget hostage in order to force the majority to authorise unfettered Iraq funding, which would rile the Democratic base. Still, the president has shown that he can extract his Iraq money from the Democratic Congress regardless by exploiting his veto and Democrats' unwillingness to block all funding while American soldiers are in the field. The Republicans can probably secure their war money without giving much on domestic spending.

Now that Mr Bush has discovered the power of the veto pen, he sees little incentive to keep it in the inkwell. Those who still support him will only be heartened by his defiance, and legislative gridlock makes the Democrats seem incompetent. The Democrats have not helped themselves with their time-wasting on Iraq. But Mr Bush's tactics may hurt Republicans in tight races, particularly if the cuts to social services he envisions hit Americans as hard as some predict.

The Democrats, meanwhile, complain that their slim majority (51-49) in the Senate has prevented them from passing ambitious legislation. Senate procedures, with all their talk of cloture and filibusters, are arcane; but if the Democrats can claim that the Republicans pressed for cuts to health care for children or winter heating assistance for the elderly, the message might resonate. Americans still tend to trust Democrats more than Republicans on domestic policy; with elections coming, now may not be the time for Republicans to rediscover their hard edges.

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On the campaign trail

Primary colour

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The Manchurian candidate
"The Muslims have said they plan on destroying the US from the inside out, what better way to start than at the highest level—through the president of the United States, one of their own!!!!"

Two volunteers for the Clinton campaign have resigned over forwarding e-mails saying that Barack Obama is a Muslim sleeper-agent. Politico.com. December 5th

School days
"I know that folks were rifling through my kindergarten papers. I'm going to be disclosing them tomorrow. It will show that I experimented with colouring outside the lines. I was pulling on pigtails."

Mr Obama continues to make hay with the Clinton campaign's excesses. ABCNews.com, December 12th

Free will
"I'm not here to tell you what to think. I got some sense. I know the difference between a book club and this seminal moment in our history."

Oprah Winfrey campaigning last weekend for Mr Obama.

Job seeker
"Since I'm from Georgia, I'll say the opposite of Sherman...If drafted, I would run, and if nominated, I would serve."

Newt Gingrich wants to be vice-president. "This Week", ABC, December 9th

Food pyramid
"Carrots. I just don't like carrots. I banned them from the governor's mansion when I was governor of Arkansas because I could."

Mike Huckabee discusses his most disliked food. Other candidates are equally opposed to vegetables; mushrooms are particularly unpopular. Associated Press, December 6th

Life's disappointments
"Voters are going to say, 'I want to get my Christmas shopping done.' They're going to go to their mailboxes hoping for an invitation to a cocktail party, and instead get a campaign mailing."

Donna Brazile, a Democratic strategist, on why most campaigns will take a break over Christmas. Des Moines Register, *December 10th*

Southern hospitality
"He's masquerading as a good ole boy."

Jim Hanks, chairman of the South Carolina League of the South, objects to Tennessean Fred Thompson's lack of support for reintroducing the Confederate flag. CNN.com, December 5th

Insane clown posse
"These people are crazy—crazy in a good way."

Ron Paul's son on his father's supporters. Washingtonpost.com, December 10th

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Lexington

The cracks begin to show

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Hillary Clinton no longer looks inevitable

Illustration by Kevin Kallaugher

ON December 8th Hillary Clinton received what should have been a boost from Andrew Young, one of the giants of the civil-rights movement. Mr Young pronounced that he wants her chief rival, Barack Obama, to be president—but in 2016, not 2008.

The 46-year-old Mr Obama is just too green about the gills for the highest office in the land, Mr Young argued, and lacks a network of political allies that could sustain him in times of trouble. “To put a brother in there by himself is to set him up for crucifixion,” he said. But he could not resist adding a kicker. “Bill [Clinton] is every bit as black as Barack—he's probably gone with more black women than Barack.”

Mr Young's faux pas is a small symptom of the Clinton campaign's troubles. Mrs Clinton's commanding leads in the make-or-break states of Iowa, New Hampshire and South Carolina have evaporated. And the much-vaunted Hillary machine is looking, for the moment at least, more Heath Robinson than *Vorsprung durch Technik*. The bad news keeps coming, and even the good news has a way of turning bad.

Mr Obama is proving to be Mrs Clinton's perfect nightmare. He has not only neutralised her most compelling claim for attention—the first black president is a more momentous prospect than the first woman president. He has also shaped the race. His early entry into the contest forced Mrs Clinton to declare her candidacy sooner than she had planned. His fund-raising prowess forced her to make much more use of her husband than she had intended. Last weekend stadium-sized crowds turned up to watch Oprah Winfrey, the only woman in America who can turn “Anna Karenina” into a bestseller, stumping for Mr Obama. Mrs Clinton was reduced to touring Iowa with her daughter, Chelsea, and her mother, Dorothy.

Mrs Clinton's problems have forced her to abandon the high horse of inevitability for the boxing ring. Yet so far she has proved to be no great shakes as a pugilist. She excused her poor performance in a debate in Philadelphia by accusing her fellow (male) candidates of “piling on”. This feebly suggested that she wanted to be given special treatment because of her gender. Then she threw a succession of wild punches that made her look like an amateur. The Clinton campaign's decision to dredge up the fact that Mr Obama had written an essay in kindergarten on how he wanted to be president was particularly misguided. What sort of person quotes a kindergarten essay against a rival?

Mrs Clinton's recent troubles have raised questions about what is arguably her most important selling-

point, her competence. The Clintonistas have always presented her as a woman who is “tough enough” to deal with anything that is thrown at her—trained in the Clinton wars of the 1990s and always ready with a counter-punch. She is certainly one of America's most accomplished practitioners of the politics of personal destruction. But the skills that she perfected behind the scenes seem to be far less effective when they are practised in the limelight.

Same old dirty politics

Mrs Clinton's troubles have also reminded people of what they most disliked about the politics of the Clinton-Bush era. “She's run what Washington would call a textbook campaign,” Mr Obama argues. “But the problem is the textbook itself.” This is self-serving: all campaigns employ the dark arts of polls, story-planting and character assassination, and Mr Obama is no exception. But Mrs Clinton is vulnerable to the charge that she uses them more than most. She is surrounded by veteran pollsters and lobbyists from her husband's administration. She seems to delight in political warfare—“Now the fun part starts,” she stupidly declared about her battle with Mr Obama. And her campaign seems addicted to spin. Mr Clinton did his wife no favours when he recently declared, despite evidence to the contrary, that he had opposed the Iraq war from the start.

Mrs Clinton's style inevitably raises questions about her character. Discuss her with voters and the same words keep cropping up—“disciplined”, “robotic”, “cold”, “scripted”, “calculating” (if childhoods are to be invoked, even her mother once said that “she just does everything she has to do to get along and get ahead”). Large numbers of voters regard her as slippery and untrustworthy. This inevitably raises questions about her electability. Mrs Clinton sometimes manages to lose in head-to-head polls against leading Republicans, despite a tidal wave of anti-Republican sentiment. A recent Gallup poll showed that, with 47% of people favourably disposed to her and 50% unfavourably disposed, she had the highest “negatives” of any candidate in the race, Democratic or Republican. Those negatives are particularly high in swing states such as Colorado.

None of this means that the former first lady's goose is cooked. Mrs Clinton is still well ahead in national polls and in the often overlooked early state of Nevada. Americans do not necessarily feel that they need to like their presidents. Richard Nixon won a resounding victory in 1972. Nearly as many Americans disliked Bill Clinton as liked him when he ran for the White House. And the (just about) Republican front-runner, Rudy Giuliani, is hardly a likeable chap. Ed Koch once wrote a book about his fellow mayor simply entitled “Giuliani: Nasty Man”.

But Mrs Clinton's problems are slowly shifting the calculus at the heart of the Democratic race. Hitherto most Democrats have calculated, or perhaps been resigned to thinking, that she is the safest bet. The young Mr Obama might deliver a spectacular victory, but he might equally well flame out spectacularly. Mrs Clinton may always have high negatives but, in an anti-Republican year, she would be wily and experienced enough to take on the Republican machine and eke out a victory in the electoral college. The past few weeks have made Mr Obama look a bit less risky—and Mrs Clinton a lot less safe.

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Argentina

Marital bliss

Dec 13th 2007 | BUENOS AIRES
From The Economist print edition

A different Kirchner is in charge, but many of the policies remain the same

AFP

Get article background

AT A packed ceremony in Argentina's Congress on December 10th, Néstor Kirchner gave his wife, Cristina Fernández de Kirchner, a gift hitherto unknown in the history of marriage: his country's presidential sash and staff. In an improvised but fluent speech, she returned the compliment by lavishing praise on his achievements, and promising to consolidate them. She has kept many of her husband's ministers. But amid this seamless display of political continuity are hints of change ahead for Argentina.

Ms Fernández, although a former senator and experienced politician in her own right, owes her elevation to her husband's decision not to seek a second term. In that sense, her status as Argentina's first elected woman president is not quite the feminist victory it appears (see article).

Buoyed by his popularity—the economy has expanded by nearly 50% since he took office in 2003—she coasted to victory in an election in October with the slogan “change is just beginning”. In foreign affairs, that may be true. She has also implied that she will be more respectful of Argentina's democratic institutions than her sometimes high-handed husband. Where Mr Kirchner seemed to relish confrontation, she ran as a consensus-builder.

Her biggest test will be the management of an economy that shows signs of overheating after its vigorous recovery from the financial collapse of 2001-02. That recovery owed much to high world prices for the country's farm exports, but Argentines give Mr Kirchner, a left-wing Peronist, much of the credit. Until a pre-election spending binge, he ran a fairly tight fiscal policy. He bullied many of the country's creditors into accepting a debt restructuring on tough terms. He also paid off the IMF in order not to have to listen to its advice, refounded several state companies and kept the peso cheap in order to promote re-industrialisation.

Most economists reckon inflation is close to 20%, although the government has massaged the official figure to keep it to half that, as well as imposing price controls. Energy demand is close to outpacing supply: the last southern-hemisphere winter saw occasional blackouts.

Ms Fernández said she would make “necessary corrections”. In an attempt to boost innovation, she has created a new ministry for science and technology. In the past few weeks her husband has floated plans to raise energy tariffs and taken steps to restore the fiscal surplus. But it appears that Mr Kirchner's notorious price-fixer, Guillermo Moreno, the secretary for internal trade, will keep his job. “The Kirchners are Peronists,” says Luis Tonelli, a columnist for *Debate* magazine. “If they have to choose between jobs and inflation, they'll choose jobs.”

The choice may come in wage negotiations next year. Ms Fernández called for a “social pact”. Labour may be in no mood to compromise. Hugo Moyano, a powerful union leader, has given warning of strikes if the new president does not bless big wage rises across the board. “For the government, inflation will begin to matter once it matters to workers and businessmen,” says Vladimir Werning of JPMorgan, an investment bank.

Change may be more tangible in foreign policy, which bored Mr Kirchner but fascinates his wife. She said that Argentina would “re-engage with the world”. She has signalled that she wants better ties with the United States, Europe and Brazil. In the first case, new strains may come from a decision by prosecutors in Florida this week to charge four people they claim were Venezuelan agents with plotting to conceal an intended $800,000 cash contribution during Argentina's election campaign.

Ms Fernández is no less a nationalist than her husband. While keen to settle Argentina's $7 billion of defaulted debt with the Paris Club of creditor governments, she refuses to brook involvement by the IMF, which the group normally requires. She shares her husband's enthusiasm for Venezuela's Hugo Chávez, who buys Argentina's bonds and sells it fuel.

Having handed over the sash, what will Mr Kirchner now do? He has said that he will devote himself to reorganising Peronism. Just as she was an influential adviser during his presidency, doubtless he will be too. He came to office with “more unemployed than votes”, as his wife recalled. But at least the country was already on the rebound in 2003. Ms Fernández may find her husband a hard act to follow. She may have to steer her course between a slowdown in the world economy as well as accelerating inflation at home. Unlike him, she starts her presidency stronger and more popular than she may end it.

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Argentina

Gaucho feminism

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Women's prominence in politics is not reflected in policies

Get article background

AT FIRST glance, Argentina looks almost like a matriarchy. Not only is Cristina Fernández the first woman to be elected as its president, but her nearest challenger in October's election was another woman, Elisa Carrió. Under a 1991 law, 30% of the candidates on party lists for Congress must be women, a proportion more than reflected in the make-up of its lower house. Argentina's best-known human-rights campaigners—the mothers and grandmothers of the Plaza de Mayo—have also been women.

That seems like quite a change for a country long notorious for the machismo of *gauchos* and the tango, or of Carlos Menem and Diego Maradona. Ms Fernández makes much of her friendship with another Latin American woman president, Chile's Michelle Bachelet. But Ms Bachelet did not owe her job to a prominent husband. For Argentine women the best route to the political summit is still to be a Peronist wife.

The tradition began with Eva Duarte, a jobbing actress who became the nation's patron saint through marriage to Juan Perón and her agitation for women and the poor. Perón's third wife, María Estela (“Isabelita”), a former nightclub dancer, briefly succeeded him as president during Argentina's murderous 1970s. In legislative elections in 2005, Ms Fernández defeated another Peronist wife, Hilda González de Duhalde, in a race for a Senate seat in Buenos Aires province; that was a proxy victory for her husband, Néstor Kirchner, against his predecessor and former sponsor, Eduardo Duhalde.

But the prominence of women in politics has not led to feminist policies. Proposals for equal pay and abortion have got nowhere. “We have to implement our values,” says María Eugenia Estenssoro, a senator. “Being a woman is not just about skirts. It's about vision.” Demonstrating that might be one way in which Ms Fernández can show who is boss in the presidential palace.

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Bolivia

Double or quits

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Too much confronting and voting, too little governing

ON TAKING office as president last year, Evo Morales, a radical socialist of Andean Indian descent, promised to “refound” Bolivia on more democratic lines by means of a new constitution. But far from offering Bolivia a new start, the constitutional rewrite threatens to prolong a political confrontation that has seen two presidents overthrown since 2003.

At a marathon 16-hour session held at a university in the highland city of Oruro on December 9th, a rump of the constituent assembly (164 of its 255 members, most supporters of Mr Morales) rubber-stamped all of the 411 clauses of the new charter (bar one on landholding). But the opposition boycotted the session; it claims the document is illegal, since it was not approved by the required two-thirds majority of the assembly. Legal or not, the government's plan is to submit the document to a referendum next year.

Mr Morales's followers say the new constitution will give more rights to indigenous Bolivians. It recognises no fewer than 37 official languages and grants autonomy to indigenous communities. They call the opposition a racist “oligarchy”.

Only a score of articles are controversial (though others may prove to be expensive). Opponents worry in particular about the weakening of property rights and a greater role for the state in the economy; about giving traditional, community justice equal status to the formal courts; and about judges being popularly elected rather than being appointed by a two-thirds majority of Congress as at present. They also want more explicit guarantees of regional autonomy.

Narrow though the differences seem, the constitution is only part of a broader political battle between two Bolivias: the poorer, mainly Indian western highlands still revere Mr Morales, while the opposition is led by the regional prefects of the more prosperous eastern departments. They accuse the president of stirring up racial conflict in a country where many people have been happy enough to define themselves as *mestizo* (of mixed race).

The opposition has had the upper hand for much of the past few months. Through political miscalculation, Mr Morales has driven the departments of Cochabamba and Chuquisaca into the opposition camp; even the prefect of La Paz was critical of the way the constitution was approved. Five regional governments plan unilaterally to declare autonomy on December 15th.

The opposition also objects to the government's efforts to remove three of the five judges on the Constitutional Tribunal, and to Mr Morales's reliance on Venezuela's Hugo Chávez, who has provided the government with cash and advisers. On December 6th a mob stoned a Venezuelan aircraft which landed at Riberalta, in the northern jungle.

But some of the prefects, too, seem to be overplaying their hand, by threatening separatism. “The government has to choose between autonomous departments within the nation, or new countries for neighbours,” says Mario Cossío, the prefect of Tarija. Along with his colleagues from Santa Cruz, Beni and Cochabamba, Mr Cossío went to Washington, DC, earlier this month to press the Organisation of American States to intervene. This has annoyed the armed forces.

Mr Morales has responded by challenging the opposition to a sort of duel. He is proposing recall referendums for himself and the prefects. One way or another, Bolivians may have a lot of voting to do in 2008. That may be an effort to distract attention from everyday problems, such as fuel shortages (caused by mismanagement by the state oil company), rising inflation and a lack of jobs. Mr Morales enjoyed widespread sympathy at home and abroad when he took office. He risks squandering much of that by seeking confrontation rather than the political consensus he needs to improve the lot of poorer Bolivians.

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Chile

Playground harmony

Dec 13th 2007 | SANTIAGO
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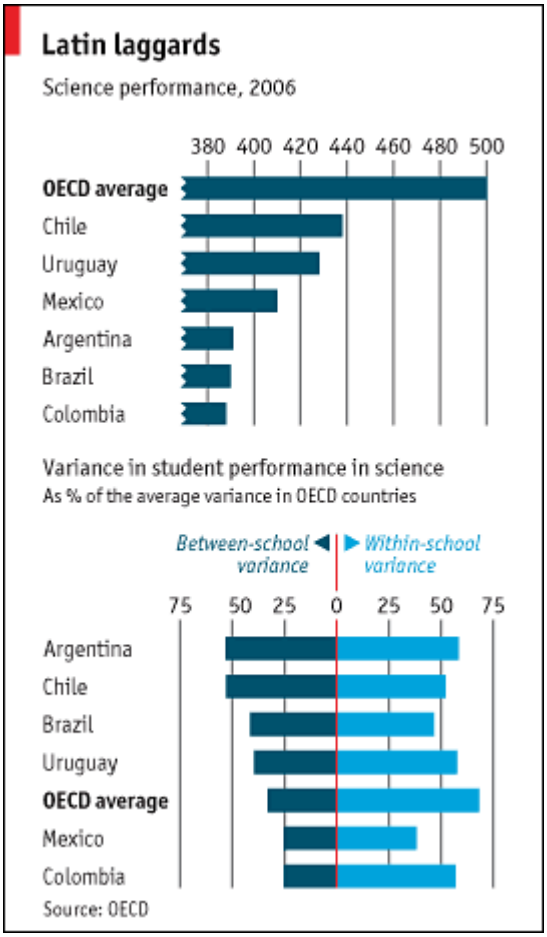
A political deal to improve schools

Get article background



THE Escuela República Árabe Siria in Valparaíso, named for the early support it received from Syrian immigrants, has a better view than the Grange School in Santiago. But that is its only advantage. Perched above a hill-encircled Pacific bay, the school serves one of the most depressed areas of a declining port city. Stray dogs wander across the dusty playground, the paint is peeling, windows lack panes and the printers attached to the donated computers lack ink. By contrast, the Grange, one of Chile's top private schools, has modern laboratories and manicured playing fields. Unsurprisingly, in a 2006 national test fourth-year primary pupils from the Valparaíso school scored on average 50% less than their peers at the Grange.

This inequality between schools is the Achilles heel of Chile's education system. In the latest Programme for International Student Assessment, released this month by the Organisation for Economic Co-operation and Development (OECD), Chile did better than other Latin American countries (see chart), though it ranked only 40th out of the 57 (mainly developed) countries that took part.

But the OECD found that in Chile the gap between the performances of different schools was one of the widest in the region and that this was more closely correlated to pupils' socio-economic background than was the case anywhere else. This inequality of outcomes among schools is a big reason why Chile's income distribution remains very unequal—even by Latin American standards and even after almost two decades of democratic government.

Money is one important issue. Fees at the Grange, at around $670 per month, are cheap by regional standards. But they are roughly ten times the grant per pupil that the municipality of Valparaíso receives from the education ministry for running the Escuela Árabe Siria. A bill close to being approved in Congress would raise this grant by 15% and by a further 50% for very poor schools.

After four months of talks, the government of Michelle Bachelet and the opposition have also reached agreement on a broader reform of education. This follows huge demonstrations by schoolchildren last year against the poor quality of state schooling. The protests seem to have shamed the politicians into setting aside an ideological tug-of-war between those wanting more state control and those in favour of letting the market and parental choice do their work.

This battle dates from the dictatorship of General Augusto Pinochet (1973-90), which established the quasi-voucher system under which municipal and privately-run schools compete for state grants and pupils. “For the first time, we've agreed to just get on with improving standards instead of arguing about the system's structure,” says an official.

If approved by Congress, a new superintendency of education will supervise the use of state grants by both municipal and private schools, while a “quality agency” will monitor teaching standards and pupil attainment. Failing schools will face closure. The superintendency should shine light on how local governments spend their education grants, and whether these reach the poorest schools. To try and

reduce social segregation, privately-run state-funded schools will not be able to select pupils by ability until they are aged 11. (This will not apply to private schools like the Grange that receive no state money.)

The reform does not deal with several important issues. One is that some municipal governments are clearly not up to the job of running schools in poorer areas. One idea is to group the education departments of weaker municipalities.

Yasna Provoste, the education minister, calls the agreement “historic”. Whether that turns out to be more than a cliché depends on the reform's implementation. But it might just mark the moment when Chile starts to tackle one of the main obstacles to its becoming a developed country—and a fairer one.

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The Bank of the South

Bolivarian finance

Dec 13th 2007 | CARACAS AND SÃO PAULO
From The Economist print edition

The IMF can sleep easy

Get article background

DREAMT up by Venezuela's Hugo Chávez as an alternative to the wicked World Bank and the even more wicked IMF, the Banco del Sur (Bank of the South), which seven South American governments signed up to on December 9th, flatters to deceive. Despite months of talks, there is still no agreement on its capital or its statutes. Rather than a gesture of defiance, the bank looks like an object lesson in why South American unity is so hard.

Mr Chávez conceived it as a political tool of his "Bolivarian revolution", to free other countries in the region from the yoke of the Bretton Woods institutions. "If we hand it over to the *técnicos*, then it is already dead," he said in August. He offered to donate to it up to half of Venezuela's foreign-exchange reserves of $30 billion. This week Venezuelan officials said that they would invite African countries to join.

Such technocrats are exactly the people Brazil insists should staff the bank—if it must be staffed at all. Brazilian diplomats have been unusually frank in revealing their lack of enthusiasm for the new institution. They fear it may give soft, politically driven loans that go unpaid. Brazil already has its own well-endowed development bank, the BNDES, whose lending of 62.5 billion reais ($37 billion) in the 12 months to September was 50% greater than that of the World Bank in the same period.

The Brazilians have gone along with the project only because they feel they cannot remain outside any new South American institution, especially one with money. But they have worked to limit the bank's remit and to slow its creation.

Mr Chávez can count on the vote of Bolivia and maybe that of Ecuador on the bank's board. But other members are likely to side with Brazil—and so will Chile, Colombia and Peru if they join. So expect a modest outfit that mainly finances cross-border infrastructure. The World Bank and the Inter-American Development Bank (not to speak of the Andean Development Corporation) do that already. But competition is a fine thing—even if it is not what Mr Chávez had in mind.

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Correction: National Autonomous University

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In our story last week on Mexico's National Autonomous University (“A doctor takes charge”) we wrongly stated that it is the only Latin American university to be ranked by Britain's *Times Higher Education Supplement* in the top 200 in the world. The University of São Paulo and the University of Campinas, both in Brazil, are ranked 175 and 177 respectively. Apologies.

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South Korea's election

Lee's hopes for the best birthday present

Dec 13th 2007 | SEOUL
From The Economist print edition

The front-runner in South Korea's presidential poll is nicknamed the bulldozer. He seems to be boring his way towards the Blue House

Reuters

Get article background

NOT many people can realistically hope to be elected president on their birthday. But December 19th is not only election day in South Korea but also the 66th birthday and 37th wedding anniversary of the runaway favourite, Lee Myung-bak. Mr Lee is a former mayor of Seoul who has led the opinion polls throughout the year by a country mile. This month prosecutors absolved him of involvement in an investment fraud, seemingly clearing away his last hurdle before the vote.

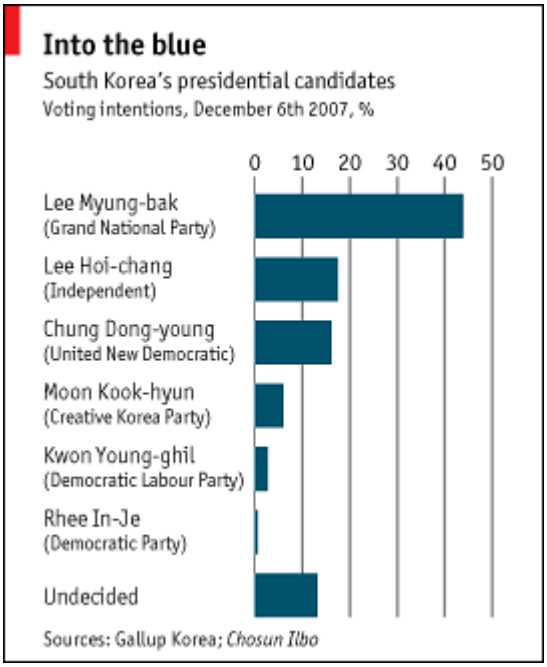
Yet few seem to muster much enthusiasm for the birthday boy. At his campaign rallies supporters clad in blue sweatshirts bearing his likeness try to galvanise onlookers with chants, dance routines and a throbbing, disco-like campaign song. The crowds remain desultory. In one stop outside Seoul earlier this month, the biggest cheer was for a group of children who waved at the candidate from the open windows of their school.

This is odd. Presidential elections used to arouse paroxysms of emotion in South Korea. If Mr Lee were to win, he would bring an end to a decade of rule by two presidents, Kim Dae-jung and Roh Moo-hyun, who were liberal in the Korean sense (that is, slightly less pro-business and pro-American). His party represents the conservative old guard, though he himself is not a member of the traditional elite, nor does he hold their hardline views about North Korea. Whoever becomes president, moreover, will take over at a time when relations between the hermit kingdom and the rest of the world have reached a delicate point, with the rest still unsure about whether the North will give up its nuclear weapons.

Why then has the 2007 campaign ignited so little passion? Perhaps because Mr Lee has enjoyed a lead in the opinion polls for so long (in the week before the vote, he was over 20 points ahead of his main rivals, who seem almost to have given up). Perhaps because no one else has caught the public's imagination either. The main challengers include a disaffected former leader of Mr Lee's Grand National Party, Lee Hoi-chang, who has twice failed to win the presidency. The leading liberal candidate, Chung Dong-young, is a former television anchorman who has turned off voters with his personal attacks on Mr Lee.

And perhaps because of the man himself. Raspy-voiced, with a reputation for being aloof and prickly, Mr Lee is not a natural politician. He refuses to appear on South Korea's main commercial broadcaster, MBC, because he accuses it of bias.

Every day ranks of police officers guard the main entrance of MBC as Mr Lee's supporters denounce its journalists. But like the presidential campaign itself, the protests lack numbers and fire.



Ordinarily, his opponents might have been able to exploit Mr Lee's stilted manner. Instead it has become an advantage. Koreans care mainly about the economy. They want a competent manager and Mr Lee seems to fit the bill. As a child, he helped his mother sell popsicles and seaweed rolls. He put himself through university by working as a rubbish collector. He rose through the ranks of Hyundai to become chief executive of ten different affiliates. Lingering suspicion that his business dealings may not have been pristine has been overlooked. South Korea is going through a period of relative economic malaise and voters want faster growth than the 5% achieved last year under President Roh, the best showing of his presidency.

Rising property prices have pushed workers in Seoul, home to half the population, far away from the capital, causing endless commutes to 12-hour-a-day jobs. Parents who pay for private classes so their children can keep up in pressure-cooker schools want changes to the education system. Many Koreans demand a comprehensive social-security system, as befits the world's 13th largest economy. The next president will also have to ensure it is not business as usual between his office, the Blue House, and the country's conglomerates. The biggest, Samsung, stands accused by a former executive of widespread bribery, including of politicians.

Mr Lee is responding to these varied demands with a comprehensive—even grandiose—list of promises. He says he can get growth up to 7% a year, bring average incomes up to $40,000 a year and make South Korea the world's seventh-largest economy by 2017. All this is to be achieved by cutting taxes, trimming public spending by 10%, easing the burden of regulation, improving the efficiency of medical spending and building a giant canal system through the middle of the country to create jobs and cut pollution. He is not promising to make pigs fly.

If he wins, Mr Lee will face divisions in both country and party. Since the end of the Korean War, South Korea has been split along regional lines. The eastern part, Gyeongsang, has traditionally produced the country's leaders (Mr Lee grew up there, though he was born in Japan). They have tended to favour their hometowns at the expense of the south-west Jeolla region.

The Grand National Party is also beset by internal rifts, notably between Mr Lee and Park Geun-hye, the daughter of a former military dictator, Park Chung-hee. Ms Park wants to run for president in five years' time. She also wants a hand in picking the party's candidates for parliamentary elections due in April 2008. If they cannot work together, Mr Lee's proposals may face an icy reception in parliament.

Mr Lee has few specific ideas about getting North Korea to give up its nuclear weapons, beyond making aid and investment conditional on disarmament. “North Korea must take steps to demonstrate it wants peace before there is widespread economic assistance or investment by South Korea,” says one of his closest foreign-policy advisers. In Mr Lee's view, the last two presidents have weakened South Korea's military alliance with America, and he promises to reinvigorate it. He also plans a range of co-operative economic agreements with Asian neighbours—and with Russia, in the hope of securing long-term oil and gas contracts in eastern Siberia. In short, all things to all countries.

Many South Koreans have been disappointed by the decade-long rule of liberal presidents who promised much but failed to deliver either strong growth or uncorrupt leadership. They were also put off by President Roh's inability to create more jobs and reduce social inequality. In contrast Mr Lee's record as mayor of Seoul suggests he can get things done. But if he does win, he will do so partly because he has raised expectations—and will suffer all the more if he cannot live up to them.

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Pakistan

Musharraf and his box of tricks

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The election will probably happen. But who will respect the result?

PAKISTANIS are slightly relieved. Exactly a month before polling day, the largest of the parties that had been refusing to contest the country's controversial general election, due on January 8th 2008, called off its boycott. This was the Pakistan Muslim League (N) headed by a former prime minister, Nawaz Sharif. Another former prime minister, Benazir Bhutto, and Maulana Fazal ur Rehman, the senior partner in the five-party clerical alliance, Muttahida Majlis Amal (MMA), had earlier decided to take part, leaving Mr Sharif with the choice of following suit, or risking political isolation.

The unpopular president, Pervez Musharraf, took a huge risk in calling an election which seemed likely to be seen as neither free nor fair. Is his poll being legitimised?

On the face of it, it might seem so. Only two national politicians are boycotting the event now. One is Imran Khan, a cricketer-turned-politician. He barely won his seat in the last election, and his absence will not alter the way people perceive the legitimacy of the vote. The other is Qazi Hussain Ahmed, the fiery leader of the Jamaat-e-Islami, an Islamist party that is part of the MMA. He is a much more formidable figure. His refusal to participate will break up the MMA, which had become a significant force since winning 11% of the vote and about a fifth of the seats in the federal Parliament in 2002. It also controls two provincial governments, in Balochistan and the North Western Frontier. Its boycott may well please other parties.

But it will not end the state of uncertainty. Opposition parties have banded together to accuse the caretaker government, handpicked by President Musharraf, of pre-poll rigging. They want the chief election commissioner, also appointed by Mr Musharraf, replaced and the state of emergency imposed on November 3rd lifted. Mr Musharraf has pledged to do the latter on December 15th but is in no mood to concede any other demand.

But if the opposition is not sanguine about the election, neither is Mr Musharraf himself. Having quit as army chief on November 28th, he cannot rely on the army and needs his loyal supporters in the Pakistan Muslim League (Q) to sweep the polls in order to keep Ms Bhutto and Mr Sharif at bay. But various opinion polls show his rivals are leading the pack. One, by the Washington, DC-based International Republican Institute, found that 70% of Pakistanis do not think his government deserves re-election and 67% want him to resign immediately. This raises the spectre of vote-rigging, violence and even boycotts on polling day itself.

That is not all. The government has given warning that al-Qaeda-inspired terrorists could disrupt the election by bombing rallies. This is not just scare-mongering: a suicide bomber attacked Ms Bhutto's homecoming and killed more than 140 people. She has since restricted her movements. The fear is that terrorist attacks might justify a postponement of the election, especially if the ruling party fears a rout. Ms Bhutto claims to be the most popular politician in the country. If she loses, she says, it will be because of vote-rigging—and she would refuse to accept such a result. Mr Musharraf called the election to end his country's political impasse. But a vote perceived as unfree and unfair might increase instability, not reduce it.

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Indian politics

Anyone but Modi

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The BJP picks its octogenarian

AFP

Advani's number one—for the moment

INDIA'S Bharatiya Janata Party (BJP) has been in a mess since it unexpectedly lost the general election of 2004 to a coalition led by the Congress party. Leadership and policy squabbles have hampered its effectiveness in opposition, and no strong figure has emerged to take charge following the gradual retirement of Atal Bihari Vajpayee, a former prime minister whose equanimity fudged many of the party's harsher Hindu-nationalist policies. Now the party hopes to reverse that decline.

At 82 and unwell, Mr Vajpayee has endorsed his colleague of over 30 years, Lal Krishna Advani, the head of the party in Parliament, as the BJP's prime-ministerial candidate in the next general election. But Mr Advani, whose new role was announced on December 10th, is 80 and, though leaner and fitter than Mr Vajpayee, will have a tough time reimposing discipline and renewing vigour in what used to be one of India's more orderly parties.

Mr Advani has been seen as a leading hardliner since he led a march in 1992 that demolished an ancient Muslim mosque on a disputed religious site in Ayodhya, sparking widespread riots. In recent years he has tried to soften his image, even to the extent of making generous remarks about Muhammad Ali Jinnah, the founder of Pakistan, when he visited India's neighbour two years ago. That was too much for the BJP's parent organisation, the Rashtriya Swayamsevak Sangh (RSS), which forced his resignation as party president. He was replaced by Rajnath Singh, a capable administrator and regional politician in his mid-50s, who seemed to embody the generational shift that the party needs. Since then, however, Mr Singh has failed to become a unifying leader.

The next general election is not due till 2009, so naming a prime-ministerial candidate could have been left a while—had it not been for two things. The first is the prospect of a snap poll if leftist parties withdraw their support for the government over India's proposed nuclear deal with America. Prakash Karat, leader of the biggest of the communist parties, gave warning recently that he would do just that by the end of this month if the government continued its current talks on the deal with the Vienna-based International Atomic Energy Agency.

The second is the possibility of a leadership bid by Narendra Modi, the BJP's controversial and egotistical chief minister in Gujarat, whose approach to Muslims makes Mr Advani look like a softie. Polling is now taking place in Gujarat's assembly elections and Mr Modi's national ambitions would be “virtually unstoppable” if the BJP won, says Mahesh Rangarajan, a political analyst. That would be a problem in the rest of the party because Mr Modi alienates the RSS and others in the BJP with his centralising, autocratic style. Even more important, as prime minister he would find it virtually impossible to attract allies to a national coalition government if the BJP were the victor. With no other BJP politician of national stature,

the party had little choice but to turn to Mr Advani for the moment. But in the long run others will have to emerge if Mr Modi is to be contained: he is only 57, and has a couple of decades to go, judging by the usual longevity of Indian politicians.

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Disputes in the South China Sea

Whale and Spratlys

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Yet another cold-war revival

WITHOUT fanfare, China has created a colossal new city. It is called a city even though it barely has a population to speak of and consists mostly of water and desolate islands. It would be no more than a bizarre misnomer were it not that the affected area—a swathe of the South China Sea—has other claimants, too.

In recent years, China has become less strident in asserting its claims to sovereignty over islands in the South China Sea. In an effort to strengthen ties with wary South-East Asian neighbours, it has preferred to play down territorial disputes and stress the need for joint efforts to exploit the oilfields beneath the waves.

But wariness persists. Vietnam has been riled by what it says was a recent Chinese decision to upgrade the status of the organisation that China says is responsible for the archipelagoes of the Paracels and Spratlys as well as the submerged reefs of Macclesfield Bank (see map). The outfit in charge of these territories is located on Woody Island in the Paracels. Its jurisdiction is reportedly being relabelled as the “county-level city” of Sansha (an abbreviation of Xisha, Nansha and Zhongsha, China's names for the outcrops), part of Hainan province.

In deference to its neighbours' sensitivities, China has not publicly confirmed the action. But Vietnam made its point by tolerating rare demonstrations on December 9th outside China's embassy in Hanoi and its consulate in Ho Chi Minh City. The Chinese, having used similar tactics themselves during spats with other countries—notably Japan—would have got the message clearly enough.

Vietnam had already been piqued by China's staging of big military exercises in the South China Sea in November, close to the Paracels. China has controlled the islands since it drove out a South Vietnamese garrison in 1974. In the 1990s it extended the runway on Woody Island. In August China's state-run media said plans had been approved to develop group tourism on the archipelago. An official was quoted as saying this would be an important way of demonstrating sovereignty.

But neither China nor Vietnam wants to see their differences deteriorate, let alone to the level of 1979 when the countries fought a brief border war (occasional skirmishes continued into the 1980s, including

one in the Spratlys in 1988). During a meeting in November in Singapore, China's prime minister, Wen Jiabao, told his Vietnamese counterpart that efforts to demarcate their land border should be speeded up. The new Sansha city embraces the Spratlys, where the Philippines, Brunei, Malaysia and Taiwan also have claims. But these contenders have so far kept quiet.

Tensions between the claimants have eased since China signed an agreement with South-East Asian countries in 2002 to resolve their disputes in the South China Sea peacefully. In the past couple of years China, Vietnam and the Philippines have been conducting an unprecedented joint survey of the South China Sea to probe its oil and gas reserves. This, however, is the easy part. When they eventually determine how big the reserves are, they will have to decide how to share them.

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Japan's foreign policy

The return of the Fukuda doctrine

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Like father, like son

IN JAPAN'S dynastic politics, even foreign policy is a family business. The most recent prime minister, Shinzo Abe, was the grandson of one prime minister; the incumbent, Yasuo Fukuda, is the first prime minister to follow his father's footsteps into office.

The hawkish Mr Abe indulged in occasional revisionism over Japan's rapine wartime past and espoused a sweeping “arc of freedom and prosperity” that was supposed to anchor Japan in a Eurasian community of democratic nations but was in practice a not-particularly-subtle attempt to throw a cordon around a rising China. Though the arc languishes as official policy on the foreign ministry's website, it has in practice been abandoned by Mr Abe's successor.

Thirty years ago Mr Fukuda senior went to Manila and promised South-East Asia that Japan had forever renounced aggression against its neighbours, and would do everything to build confidence and mutual respect. This became known as the Fukuda doctrine. In the practice of it, Mr Fukuda *père* opened diplomatic relations with China. Now, Mr Fukuda *fils* is proving a chip off the old block.

Late last month at the 16-country East Asia Summit in Singapore, the younger Mr Fukuda looked singularly at ease schmoozing with Asia's leaders, most of whom say they value discretion over confrontation. In effect, he assured them that the Fukuda doctrine was alive and well. Though there is no question of Japan abandoning its 60-year alliance with the United States (and neighbours would no doubt be horrified if it did), Mr Fukuda assured them that he would follow a more “Asia-focused” policy.

China, in particular, has taken notice. Its leaders have not forgotten the father, and the stripling 71-year-old son will get a warm welcome on a first official trip to Beijing in late December or early January. Where Mr Abe used bluntly to bring up China's human-rights record and its lack of military transparency, people who know Mr Fukuda say that there is no question of his raising such indelicate issues with the Chinese. As an early seasonal gift, his government last month refused to meet the Dalai Lama, who was on a visit to Japan, explaining that the Tibetan leader was not “important” enough.

The upshot is that traditionally strained relations between Japan and China look set for a sharp improvement. President Hu Jintao will visit Japan in the spring, and is likely to be invited as a guest to the G8 summit to be held in early July in Hokkaido, in northern Japan. Climate change will top the summit's agenda, and China's pollution record will draw flak, as will its human-rights record soon after, during Beijing's Olympics. Mr Hu will look to Mr Fukuda—if he is indeed still prime minister—to provide friendly covering fire on both counts. The last thing China wants to do in the coming months is undermine Japan's prime minister, and this will help Mr Fukuda, with a minimum of effort, to rise above his domestic problems and look every inch the statesman.

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Orwellian architecture in China

The Ministry of Truth

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Big Brother's CCTV

GEORGE ORWELL wrote of the Ministry of Truth (in his novel, “1984”) that it was “startlingly different from any other object in sight”. The same applies to China Central Television's new headquarters in Beijing. It is one of the world's biggest and most architecturally ambitious buildings, often described as a twisted doughnut with two leaning towers connected by an impossible looking L-shaped overhang.

The edifice was designed by Rem Koolhaas, a Dutch architect whose company's website describes the building (Orwellianism not intended) as “a canopy that symbolically embraces the entire population”. The state-owned broadcaster's move from an obscure part of western Beijing to a new international business district highlights its global aspirations.

For more than a year, passers-by have watched the 230-metre (750-foot) towers creep up at a perilous six-degree angle. On December 8th, says Rory McGowan of Arup, a British engineering firm in charge of the project, the towers were permanently joined by seven steel beams. The timing, at 9.30am, was important. Had it been later, uneven expansion of the building's frame in daylight would have resulted in stresses being locked in.

The building is supposed to be ready for partial use in time for the Olympic Games next August and completed in 2009. Construction, says the broadcaster, is proceeding smoothly “under the loving care” of the Communist Party.

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South Africa

Mbeki v Zuma: the showdown

Dec 13th 2007 | JOHANNESBURG
From The Economist print edition

The ruling party's leadership race turns into a depressing duel

WorldPictureNetwork/EPA

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IN MANY democratic countries, party leadership contests are openly fought affairs. In South Africa's ruling African National Congress (ANC), they have usually been a lot more mysterious. Candidates deny they are in the running—so do not debate with one another—and there is only one name left on the ballot by the time the party votes. But as the ANC meets on December 16th to pick its next leader, a real contest is in the offing for the first time in decades. Thabo Mbeki, president of both the ANC and the country, and Jacob Zuma, the party's vice-president whom Mr Mbeki sacked as the country's deputy president in 2005, are vying for the job. The mere fact of an open race should be good news. But the two candidates are not.

Nominations from the party branches put Mr Zuma comfortably ahead, so he looks set to win. But Mr Mbeki's camp still hopes to convince enough delegates to change their minds. Ministers and other heavyweights have been dispatched to the local trenches. Allegations of wrongdoing on both sides, from promises of jobs and cash to intimidation and shenanigans in the course of nomination, have been flying around too. The constitution bars Mr Mbeki from being the country's president for a third term after the 2009 general election. But if he retains control of the party, he can at least block Mr Zuma from following him, as the party's president traditionally becomes its candidate to be the country's president.

However, after 13 years in power, first as Nelson Mandela's deputy and then as president, Mr Mbeki's aloof and authoritarian style of leadership has alienated many in the party. Parts of the ANC, together with the party's communist and trade union allies, are unhappy with the government's economic policies, which they criticise as too business-friendly and not helpful enough to the country's many poor. And they complain that the party's tradition of robust debate has been replaced by fear and intolerance. Mr Mbeki's stubbornly weird views on HIV/AIDS have also angered many.

All this has boosted the fortunes of the congenial Mr Zuma, far more at ease with the party's rank and file than Mr Mbeki. To allay fears that he may be too radical, he has recently been waltzing through Asia, Europe and America, telling investors that he supports the government's broadly free-market policies. In other words, they have nothing to fear if he becomes South Africa's president.

But Mr Zuma is hardly an ideal candidate. He was sacked in 2005 following the conviction of his financial adviser for corruption and could soon face similar charges himself. He was acquitted of rape in 2006, but admitted to having unprotected sex with his HIV-positive accuser; he said he took a shower to minimise the risks of infection. Mr Zuma believes he is the innocent victim of a political conspiracy, but his detractors accuse him of saying whatever people want to hear and of surrounding himself with shady characters. They still fear that he may reverse the undoubted gains of recent years with reckless economic policies.

Unfortunately, hopes for a compromise candidate seem dead. A former Robben Island prisoner and successful businessman, Tokyo Sexwale, threw his hat in the ring but failed to get much support. He is now supporting Mr Zuma. Other credible alternatives, such as Cyril Ramaphosa, a former trade unionist and now businessman, have kept their heads down.

Is there no one else?

The rest of South Africa is watching from the sidelines—and is unimpressed. According to local polls taken in the big cities, Mr Mbeki's popularity has sunk to 40%, while almost half think that a Zuma presidency would be disastrous.

Whatever happens, it seems that the days are gone when the ANC leader simply emerged from a magic circle of party elders. Some ANC voices lament this, arguing that the open and public bitterness of the current contest is a betrayal of the party's collegial traditions.

But a more open and competitive leadership race should in theory be a step in the right direction for both the party and the country, as the official opposition, now led by a white liberal, Helen Zille, is unlikely to present much of an electoral challenge for the foreseeable future. It is, however, hard to fathom how a party with such a long line of remarkable leaders has ended up having to choose between these particular alternatives.

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Chad

A peacekeeping puzzle for Europe

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A small European force runs into big problems in central Africa

THE idea of sending several thousand European Union (EU) soldiers and a bunch of UN policemen to protect 400,000 displaced civilians and Sudanese refugees from Darfur who have been sheltering in eastern Chad seems well-intentioned, as does sending a handful more to the remote north of the neighbouring Central African Republic (CAR). Here, too, civilians are being terrorised by local rebels and by some from neighbouring countries who use swathes of the CAR's lawless terrain for rest, transit and launching attacks.

But a proposed EU-led mission is fraught with complications. It was supposed to be up and running by the end of the year but is far behind schedule. The latest hitch is a lack of helicopters, essential for ferrying 3,700 soldiers and 300 UN police around 200,000 square kilometres (77,000 square miles) of Africa's harshest terrain. Some diplomats think the deployment will be postponed until next May.

Even if the force gets there, it is not clear how it will operate. In UN-speak, it will have a “multi-dimensional presence”. The soldiers and police are meant to stop Darfur's violence spreading west by sealing the border. They must also protect the civilians who have fled and the aid workers looking after them in Chad. How they will do this is fuzzy. The mission's UN Chapter 7 mandate could theoretically let it go on the offensive to stop attacks. Or it could simply monitor the situation.

Given the force's limitations, the latter is likelier. A report issued by the Massachusetts Institute of Technology reckons the EU would need over 10,000 men and a lot of air power. Instead, the force will hope its mere presence will be a deterrent.

Due to be led by an Irishman, the bulk of its soldiers will be French, plus some Austrians, Dutchmen, Poles and Swedes. But herein lies another problem. France can provide these troops as it already has a base in Chad, a former colony. It is already embroiled in existing conflicts in both Chad and the CAR, another former possession. So the humanitarian intent and neutrality of the EU force is being queried.

France has, for instance, been using special forces to fight rebels in the CAR's north-east. The proposed EU force in that country will, in fact, consist of these same 200-odd soldiers merely swapping berets. In Chad, France gives logistical and intelligence help to a disliked president, Idriss Déby, in his battle against rebels in his country's east; some, in turn, have declared war on France and have warned the EU that its force will be treated as the enemy because of France's participation in it.

The CAR's government, on the other hand, is keen for anyone to come and help control the country's lawless north. Villagers, businessmen trying to ply their trade and even the rebels operating there say that they, too, want stability. But those who have fled the region's violence are sceptical about what the soldiers will really be able to do. “I hear things on the radio about this force but let's see what happens,” says Mamadou Yusuf, an elderly Sudanese refugee from Darfur who fled to a camp in the north-east of the CAR. “For now we are staying here.”

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Ethiopia and Eritrea

Bad words over Badme

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A bitter old row shows no sign of fading

Get article background

“SHOULD Eritrea launch another war, we will make certain it will never ever dream of entertaining or thinking about war again.” So said Ethiopia's prime minister, Meles Zenawi, in a recent speech to Parliament. His country did not seek war, he stressed. But if Eritrea launched a “suicidal” attack, it would be driven into the sea.

Eritrea has heard it before. Ethiopia tried to drive it into the sea at Massawa between 1998 and 2000, and failed. Instead, 70,000 on both sides died in trench warfare; a stalemate led to a truce. This time Mr Zenawi's belligerence comes as the Eritrea-Ethiopia Border Commission wound up business this month, with no agreed demarcation. In 2002 it awarded the disputed village of Badme to Eritrea. Ethiopia rejected the verdict, and has since used diplomatic verbiage to obfuscate and stall.

Eritrea naturally took the commission at its word but under its authoritarian president, Issaias Afwerki, has alienated just about every sympathiser. As his rule has become harsher and more erratic, the border issue has loomed larger in Eritrea's national psyche. Mr Afwerki may disgust his compatriots by torturing and imprisoning his critics. But he knows Eritreans will back him over Badme.

The border is more militarised than ever. According to the International Crisis Group, a think-tank, Eritrea has 4,000 troops inside a supposedly demilitarised buffer zone and a further 120,000 dug in along its side of the craggy border that is 1,000km (621 miles) long. On its side, Ethiopia has 100,000 troops.

A UN monitoring force is meant to pack up next month but may stay on. The tension gives both countries an excuse to spend more on guns and spies, some to be turned on domestic enemies. Neither country can afford such things. Ethiopia, at least 75m-strong, is bogged down in Somalia and fighting separatists in the Ogaden desert; Mr Zenawi says he is putting Ethiopia's defence budget up by 17% to $390m. Eritrea, with only 5m people, simply cannot keep up.

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Algeria

A victim of global terror

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From The Economist print edition

What lies behind the latest bombings in Algeria's capital?

Get article background

ONE blast seems to have been aimed at Algeria's constitutional court but killed a busload of university students who happened to be passing by. The other destroyed the local office of the UN's High Commissioner for Refugees and damaged other UN offices across the street. Hospital sources reported 76 dead, though the government said 26. Responsibility was claimed on Islamist websites by “al-Qaeda in the Islamic Maghreb”, as Algeria's main terrorist group now styles itself. Its declared aim was to strike a blow at “the Crusaders and their agents, the slaves of America and the sons of France”.

Following several years of relative calm, Algeria has suffered a spate of violence since the spring. This has usually been explained as a hangover from Algeria's particularly brutal civil war in the 1990s. But the nature of recent attacks reflects a broader global agenda promoted by the alliance, announced last year, between local Islamist terrorists and al-Qaeda. Nearly simultaneous multiple bombings, aimed at maximising terror and carrying a message of “resistance” to imagined enemies of Islam, have become a calling card of the terrorist group. Previous attacks in Algeria had been smaller strikes aimed at police stations and the like. Earlier this year the group tried to kill the prime minister.

The seed for today's terrorism was probably planted in 1992, when Algeria's government annulled a second round of elections after Islamists had won the first. This led to one of the most spectacular outbreaks of violence in modern times, leaving some 200,000 Algerians dead. No target, even busloads of schoolchildren, was considered illegitimate. It stemmed from a perversion of the Muslim idea of *takfir* (excommunication), whereby al-Qaeda has declared several Arab governments, including the Egyptian and Saudi ones, to be apostates deserving death.

Algeria's Armed Islamic Group (GIA) took the condemnation further, announcing that anyone not fighting against the government deserved the same fate. A splinter from the GIA, the Salafist Group for Preaching and Combat (GSPC), has since grown to greater prominence than the GIA. This newer group at first promised to avoid the GIA's habit of random violence. But in the past six months its violence has claimed more civilian lives, often dozens at a time. The latest bombings were the bloodiest yet. If the Salafist group was responsible, it has broken that promise.

What makes this possible is the nature of the attack and the close links between the GSPC and al-Qaeda. Algeria's Islamists and Osama bin Laden collaborated in the 1990s. Their ties became formal last year, on the fifth anniversary of the September 11th attacks, when Ayman al-Zawahiri, al-Qaeda's deputy leader, named the GSPC as his group's North African affiliate. Since then, it has styled itself al-Qaeda in the Islamic Maghreb, matching the name of its affiliate in Iraq, al-Qaeda in Mesopotamia. Both titles avoid mentioning Algeria and Iraq, names of the modern, secular states created by Europeans. Such a designation seemed ambitious when the group was engaged in parochial fighting. But as attacks have become bigger and deadlier, the group is aiming to look more like an organisation in its parent's mould.

Few expect Algeria to revert to the sustained violence of the civil war. An amnesty declared in 2002 has enabled thousands of former Islamist militants to return to ordinary life. High oil prices have helped resurrect what had been a nearly ruined economy, and in recent local elections moderate Islamists failed to make ground. Algerian officials say that, by choosing high-publicity targets of low strategic value, the terrorists display their own weakness. But they still generate terror.

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Israel

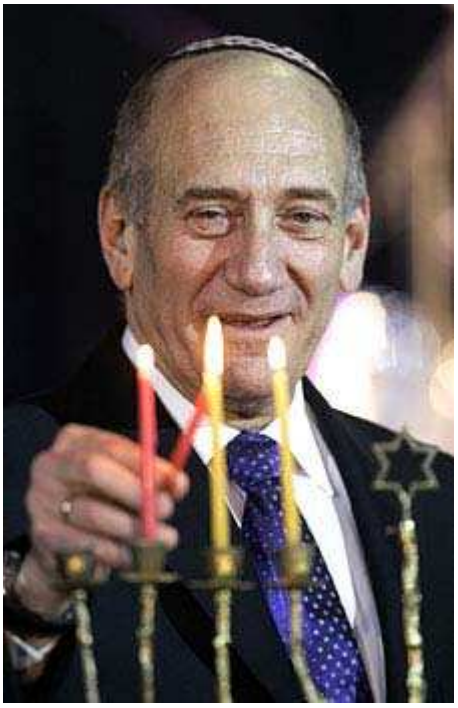
Negotiations on a knife-edge

Dec 13th 2007 | JERUSALEM
From The Economist print edition

Israel's government may not last long enough to strike a peace deal

Get article background

AP



Can Olmert light a candle for peace?

“SHAS is dividing Jerusalem!” At first glance, the graffito on a wall in the city centre looks incongruous. Shas, a religious right-wing party in Ehud Olmert's government coalition, vociferously opposes relinquishing any of what Israel considers its eternal and indivisible capital to a future Palestinian state. But the spray-painted slogan is in fact a portent of how peace talks between the Israelis and Palestinians, which began this week after being launched at last month's summit in Annapolis, may break down.

Mr Olmert, Israel's prime minister, says he wants to conclude a peace agreement within a year, but the received wisdom is that his coalition government will fall first. The talks are unluckily timed: Israeli coalitions usually break up in their third year, and the five-party ensemble led by Mr Olmert's Kadima will have its second birthday in May.

This fragility may be generic to Israeli politics. With so many parties jostling for space, their fortunes are volatile and many legislators do not get re-elected. So they are loth to destabilise the government in the first two years, but then switch to aggressive electioneering, seeking issues to make them stand out at the next plebiscite.

The issue this time could be Jerusalem. Since both Israel and the Palestinians claim it as their capital, some partition will be essential for a peace agreement. This week, after an uproar over Israel's plans to build 300 new Jewish homes on West Bank land that it annexed to Jerusalem in 1980—actions that are widely regarded abroad as illegal—Haim Ramon, Mr Olmert's deputy, said that Israel would give up some other annexed neighbourhoods where Palestinians live. But Israeli hardliners do not want to surrender even these areas, though they contain neither Jews nor Jewish monuments.

Both Shas and another coalition member, Yisrael Beiteinu, are right-wing but opportunistic parties that benefit from being in power. They might have quietly swallowed a token partition of Jerusalem earlier in the government's term. But in a possible election year, the pressure on them to block any concessions to the Palestinians will be intense—particularly if the right-wing Likud is the favourite to win, as it currently is. The graffito about Shas, plus posters similarly denouncing Yisrael Beiteinu which began appearing just before the Annapolis summit, shows that the pressure is already on.

On top of that, Mr Olmert's government could still fall over the final report of a commission investigating last year's Lebanon war, or over any one of several corruption probes (though those threats have recently receded a bit). But the talks with the Palestinians are not necessarily doomed to failure. Mr Olmert could push them hard, hoping to make enough progress by the time the government does fall to persuade moderate voters to re-elect him to finish the job. Or Labour, which also supports the peace process, might beat the Likud in an election if its leader, Ehud Barak, were to secure general public approval in his current job as Mr Olmert's doughty defence minister.

Those are big gambles, however. Another strategy for Mr Olmert, says Gidi Grinstein of the Reut Institute, a think-tank in Tel Aviv, would be to retreat from a full-fledged accord and instead try to clinch a deal on a provisional Palestinian state, with borders that could change later. The Palestinians have long opposed such an approach, under which they might lose more land. But if the alternative is a total breakdown, it may be their only choice.

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Russia's presidency

Enter Putin two

Dec 13th 2007 | MOSCOW
From The Economist print edition

From Vladimir Putin (front) to Dmitry Medvedev (behind): a very Russian way to change the political guard

AFP

Get article background

VLADIMIR PUTIN likes to surprise. But this time he has excelled himself, making a surprise out of something that is not surprising at all. Dmitry Medvedev, a 42-year-old lawyer chosen by Mr Putin to be Russia's next president, was always a front-runner. That Mr Putin may become his prime minister was also floated two months ago. Yet nobody expected Mr Putin simply to do what he had said.

The choice of Mr Medvedev was first flagged in November 2005, when the publicity-shy head of the Kremlin administration was entrusted with billions of dollars for social projects and promoted to deputy prime minister. A day later Mr Medvedev, in his first big speech, promised a better life for ordinary Russians. A year on, when he spoke at the World Economic Forum in Davos, he was favoured by 35% of Russians for president. “Here was born the future president of Russia,” somebody scratched in the doorway of Mr Medvedev's old apartment block in St Petersburg.

But then Mr Putin, as befits a former KGB officer, started covering his tracks. He raised Sergei Ivanov, the defence minister and another ex-KGB man, to the same position as Mr Medvedev. Television mentions of Mr Ivanov shot up; soon 37% of Russians said they were ready to vote for him. Mr Ivanov was more in tune with Mr Putin's anti-Western sabre-rattling. Yet on the day that a leading Russian newspaper tipped Mr Ivanov as next prime minister, Mr Putin pulled off another surprise by appointing the little-known Viktor Zubkov. He surprised again by announcing that he would lead the pro-Kremlin United Russia party in the parliamentary election on December 2nd. He suggested that a big United Russia win might tempt him to become prime minister, perhaps under a pliable Mr Zubkov.

Then the infighting in the Kremlin started to get out of hand and Mr Putin returned to his original plan of making Mr Medvedev president. This brought both surprise and relief. Mr Putin's talk of enemies of the people and his beating up and jailing of demonstrators were followed by the arrest of a liberal deputy finance minister. In the circumstances, the choice of a soft-spoken, civilian lawyer seemed a palm of peace. Compared with Mr Ivanov and Mr Zubkov, he looks liberal. The reaction was that it could have been much worse. Germany's Angela Merkel, who criticised Russia's parliamentary election, telephoned to say she could work well with Mr Medvedev. But it is not Mr Medvedev she may have to work with. For the next day, in a final surprise, Mr Medvedev invited Mr Putin to be his prime minister.

The truth is that Mr Medvedev is not an independent politician, but an extension of Mr Putin. He comes from Mr Putin's native St Petersburg and studied law at the same university. He worked alongside Mr Putin in St Petersburg's mayoral office and has not left his side since. In Moscow he ran Mr Putin's presidential campaign and chaired Gazprom, the gas giant. He was Mr Putin's chief of staff and legal *consigliere*. He is 13 years younger and a few inches shorter, but also a lot less confident.

Mr Medvedev does not come from the *siloviki*, ex-members of the security services who control so much of Mr Putin's Russia; his loyalty to Mr Putin is personal. He belongs to what was once the Soviet intelligentsia, and is more interested in business than rockets. He did not support the arrest of Mikhail Khodorkovsky, an oligarch who challenged Mr Putin, and even questioned the prosecutor's tactics. Nor does he subscribe to the Kremlin's notion of “sovereign democracy”. Democracy, he has said, does not need qualifications.

Yet Andrei Illarionov, a former adviser to Mr Putin and now one of his fiercest critics, says it is ridiculous to call Mr Medvedev a liberal. When Mr Medvedev was the Kremlin chief of staff, he banned members of the administration from talking to the press. Mr Illarionov, who frequently broke this order, was reprimanded. The danger, Mr Illarionov says, is that Mr Medvedev may try to overcompensate for his lack of a security background.

If Mr Medvedev has liberal instincts, the best way to show them would be to run a free and fair presidential election. So far, his big selling point is that he is really a Putin-2. The day after he was anointed, Mr Medvedev made a televised statement. Reading from an autocue, and even imitating Mr Putin's voice and style, he declared: “I consider it of utmost importance for our country to keep Vladimir Vladimirovich Putin in the highest post of executive power, the post of head of government of the Russian Federation.”

The Kremlin line is that the teamwork between Mr Putin as prime minister and Mr Medvedev as president will guarantee stability, creating a good base for more liberal reforms. Mr Putin has hinted that more state companies will, sooner or later, be privatised. So far, this has sounded more like a redistribution of property, rather than liberal reform.

As for Mr Putin, he seems still to be keeping his options open. If he becomes prime minister it is hard to imagine him answering to Mr Medvedev. Whatever the form, Mr Putin will be more popular and more powerful than his protégé. Under the constitution, the president has control over the army and the security services, but this could easily be changed by a parliamentary vote. In any event Mr Putin is unlikely to part with power. More surprises could be in store, even the revival of a once-touted plan for a union with Belarus that might let Mr Putin stay president.

The Kremlin's machinations have revealed a simple truth: that the authoritarian system created by Mr Putin in the past eight years does not allow an orderly transition of power from one elite to another. Kirill Rogov, a political analyst, points out that elections, which in a democratic society act as a mechanism for rotating power, have in Russia become a mechanism for preserving it.

This reverses the biggest achievement of Boris Yeltsin's short-lived, imperfect democracy: a peaceful transfer of power. The manner in which Mr Yeltsin handed power to Mr Putin in December 1999 was not ideal, but he did step down and let somebody else take charge. Mr Putin seems unable to repeat that. Indeed, so as to hang on to power, he may be prepared to undermine the institution of a strong presidency that he helped to create.

For all the talk of stability, Russia is in some ways less stable than it was. Mr Putin has been lucky to enjoy an oil boom that filled up state coffers and fanned economic growth. But the underlying economy has not been diversified or restructured. Inflation is running in double digits, domestic gas and electricity prices need to be raised and the outlook for the world economy is suddenly gloomier. Yet the biggest danger for Russia remains political.

Russia has traditionally had only one centre of power: the Kremlin. There is but one precedent for a strong prime minister and a weak head of state. This was 100 years ago when Pyotr Stolypin was prime minister under Tsar Nicholas II. Stolypin dealt ruthlessly with political protesters to push through reforms to make Russia a leading European power. His catch-phrase was: give Russia 20 years of peace, and you will not recognise it. But it all ended badly. Stolypin was assassinated, Nicholas II murdered by the Bolsheviks—and Russia plunged into 73 years of communism.

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Kosovo's future

Balkan bagatelle

Dec 13th 2007
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The delicate diplomacy over the handling of Kosovo's looming independence

A JOKE has been circulating among diplomats concerned with the Balkans. The reply to the question, "what comes after December 10th?" is "December 11th." And so it has proved. The 10th was the deadline for a mission led by ambassadors from the European Union, America and Russia to report to the United Nations on the outcome of negotiations between Serbia and its breakaway province of Kosovo. In the event, the talks produced so little that the report was handed in early.

It would be wrong to conclude that nothing has changed after the failure of the troika's talks. The end of almost two years of diplomatic efforts to find an agreement means that one chapter on Kosovo has closed and a new one is opening. A period of turbulence lies ahead, and it could even be accompanied by a few spasms of violence. But it is almost inconceivable that there will be a general return to the Balkan wars of the 1990s.

Kosovo is the last remaining piece of the former Yugoslav jigsaw. Some 90% of its 2m people are ethnic Albanians who have long demanded independence. Unlike the six countries that have already emerged from the old Yugoslavia, Kosovo was not a republic but a province—and one with a special historical significance for Serbs. Serbia's present leaders have offered maximum autonomy, but Kosovo's Albanians have said they will settle for nothing less than independence.

On December 19th the UN Security Council will take up the question. Russia, Serbia's backer, will demand that talks continue. This will be rejected by America and the EU countries, who say there is nothing left to discuss. At the same time, Western diplomats are working out next steps. Serbia is to hold a two-round presidential election in January and February. The Kosovo Albanians are being asked to hold off declaring independence before then, in a bid to boost the chances of the pro-European incumbent, Boris Tadic.

The diplomats are trying to find a legal cover to replace the UN mission in Kosovo with one from the EU. This is proving hard. Kosovo is governed by the Security Council's resolution 1244, which says it is part of Yugoslavia, to which Serbia is the legal successor state. "On this the Serbs and the Russians probably have the law on their side," sighs a top European diplomat. "But then this is a political decision, not a legal one."

Once Kosovo declares independence, it is likely to be recognised by the Americans, most EU members

and many Muslim countries. Serbia may try to blockade the new country, apart from the Serb-inhabited part of Mitrovica and the north that it already, in effect, runs. So this may turn into Europe's newest “frozen conflict”. Kosovo exports nothing to Serbia, but Serbian exports to Kosovo amount to €200m ($280m) a year. This trade may be diverted through Montenegro and Macedonia.

The biggest worry concerns the 50,000 or more Serbs who live in enclaves scattered across Kosovo proper. Most, but not all, seem to be staying put. If the birth of a new Kosovo is accompanied by violence these are the most vulnerable targets.

As for Serbia, it is at a fork in the road. The EU's leaders may soften the blow over Kosovo by waiving a precondition that the country co-operate in full with the Yugoslav war-crimes tribunal in The Hague before signing a stabilisation and association agreement that would bring it large sums of aid. But Vojislav Kostunica, Serbia's prime minister, says it is insulting to believe that his country would trade Kosovo for eventual EU membership, and even hints that his country might refuse to sign the deal. Others close to Mr Tadic retort that Serbia has nowhere else to go.

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French foreign policy

Sarkozy's moral test

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President Nicolas Sarkozy courts controversy by welcoming Libya's leader, Muammar Qaddafi

THE khaki Bedouin tent was pitched just across from the Elysée Palace. Police blocked off the road to allow a white stretch limousine to glide into the courtyard. In short, Nicolas Sarkozy bent over backwards to welcome Muammar Qaddafi, Libya's leader, on a five-day visit. By doing so he prompted a furore in France—and called into question his declared wish for a more moral foreign policy.

Mr Sarkozy is not the only Western leader to embrace Mr Qaddafi since the Libyan leader escaped from diplomatic isolation in 2003, after renouncing a secret nuclear-weapons programme and taking official responsibility for past acts of terrorism. Britain's Tony Blair dropped in on him in Tripoli in 2004, and was back again to sign an oil deal earlier this year. Italy's Romano Prodi, as European Commission president, met him in Brussels.

But nobody else has laid on such a welcome. Mr Qaddafi had two audiences with Mr Sarkozy, as well as a parliamentary reception and dinner at the Elysée—on World Human Rights Day. In return, Libya agreed to buy from France hardware worth more than €10 billion ($14 billion), including 21 Airbus aircraft, military helicopters, 14 Rafale fighters, armoured vehicles and missiles. France is also to supply a nuclear reactor to Libya. The ground for these deals was prepared in June, when Mr Sarkozy visited Mr Qaddafi after the Libyan leader had freed six Bulgarian medical staff on death row, following intermediation by the president's then wife, Cécilia.

Reuters

Welcome to Paris, mon colonel

Mr Sarkozy may merely be keeping up a tradition of using diplomacy for commercial ends, something his predecessor, Jacques Chirac, did all the time. But unlike Mr Chirac, Mr Sarkozy claims to want a human-rights dimension in foreign policy. One goal of French diplomacy, he said in his election campaign, should be “to promote freedom and human rights on the international scene”. He added that “just because China and Russia are great powers one should not refrain from denouncing the violations of human rights that are committed there.” To this end, he made Bernard Kouchner, a left-wing former humanitarian champion, his foreign minister. And he gave Rama Yade, a feisty 31-year-old Senegalese, a human-rights post in the foreign ministry.

Yet a pattern has emerged that does not fit these lofty aspirations. When Mr Sarkozy flew to China last month, and bagged over €19 billion in contracts for French firms, he excluded Ms Yade from the trip. When Russia staged a flawed legislative election, described by Germany's Angela Merkel as “neither a free, fair nor democratic election”, Mr Sarkozy telephoned Vladimir Putin to offer “congratulations”, to the dismay of fellow Europeans.

This week opposition deputies walked out in protest over Mr Qaddafi's visit to parliament. Even more stinging criticism came from Ms Yade. “Colonel Qaddafi must understand”, the human-rights minister told *Le Parisien*, “that our country is not a doormat, on which a leader, terrorist or not, can come to wipe the blood of his crimes from his feet.” As for Mr Kouchner, he was in Brussels during the Elysée dinner; he called this a “happy coincidence”.

Mr Sarkozy argues that it is sterile to oppose an idealistic to a realistic brand of foreign policy. He believes you can pursue both. Even as he pushes arms contracts and entertains the likes of Mr Qaddafi, he is also sending over 1,000 French peacekeepers to the Darfur border. France is ready to talk to anybody who tries to improve their behaviour. As Mr Sarkozy asked, “what would we say to Iranian leaders if we did not offer a hand to a Libyan leader who has himself chosen to turn his back on nuclear arms and terrorism?”

The trouble arises when one pursues moral diplomacy and realpolitik with the same country. Were the arms contracts from Libya part of the deal to free the Bulgarian nurses? Mr Sarkozy says not, but the terms are being looked at by a parliamentary inquiry. Mr Sarkozy is pressing to free hostages in Colombia, among them Ingrid Betancourt, a Franco-Colombian. But he also persuaded the Colombians to free a top guerrilla from the FARC, considered a terrorist group by America and Europe.

In short, Mr Sarkozy's action-man diplomacy is about results, not means: if it works, it works. The release of Ms Betancourt, for instance, would be warmly welcomed in France. And Mr Sarkozy has no time for left-bank intellectuals “so sure of what they think while drinking coffee on the Boulevard Saint-Germain”. They may not have much time for him, either.

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French political language

The decline of the abstract noun

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What a reduction in abstraction says about the new France

OF ALL the novelties of France under President Nicolas Sarkozy, one of the more arresting is the decline of the abstract noun. In the past, no French leader would make a speech without liberal doses of destiny and history. In one speech Mr Sarkozy's predecessor, Jacques Chirac, squeezed 13 abstract nouns—unity, liberty, humanity and more—into a single sentence. He was almost outdone by his prime minister (and part-time poet), Dominique de Villepin, who came up with the declaration: "Globalisation is not an ideal, it cannot be our destiny."

The contrast with the wordcraft of Mr Sarkozy is instructive. In his first big foreign-policy speech, he managed in 18 pages to utter neither the word glory nor the word grandeur. Unlike his British counterparts, who favour verbless sentences, Mr Sarkozy is a verbaholic. According to a linguistic analysis of his campaign speeches by Damon Mayaffre, of the University of Nice, one of Mr Sarkozy's most frequent words is I, usually followed by the verb want.

What does this say about France? One answer is that the country has a hyperactive president, constantly on the go, who expects the French to be so too. "Work more to earn more" was his slogan, and his use of verbs matches the message. This is a man who likes to jog, where previous presidents preferred a dignified stroll. Indeed, his predilection prompted *Libération*, a left-leaning newspaper, to ask, "Is jogging right-wing?" It even moved a philosopher, Alain Finkielkraut, to implore the president to take up the promenade—a "spiritual experience"—and to give up jogging, which is mere "body management".

Another explanation is that Mr Sarkozy is challenging the French tradition of conceptualism. Intellectuals, long cherished by the establishment, get short shrift now. "It's an old national habit: France is a country that thinks," said Christine Lagarde, the finance minister, in a speech on the value of work, before adding: "Enough thinking now! Let's roll up our sleeves." This week, Mr Sarkozy sneered at French philosophers during the visit of Libya's Muammar Qaddafi to Paris, accusing them of sipping coffee in Left Bank cafés while others got things done. As for France's famously rigid school curriculum, he has little fondness for it. Too much time is spent, he has declared, "on doctrine, theory and abstraction", and not enough on practical applications. How long will it be before he has a go at the national motto, a veritable wealth of abstraction: Liberty, Equality, Fraternity?

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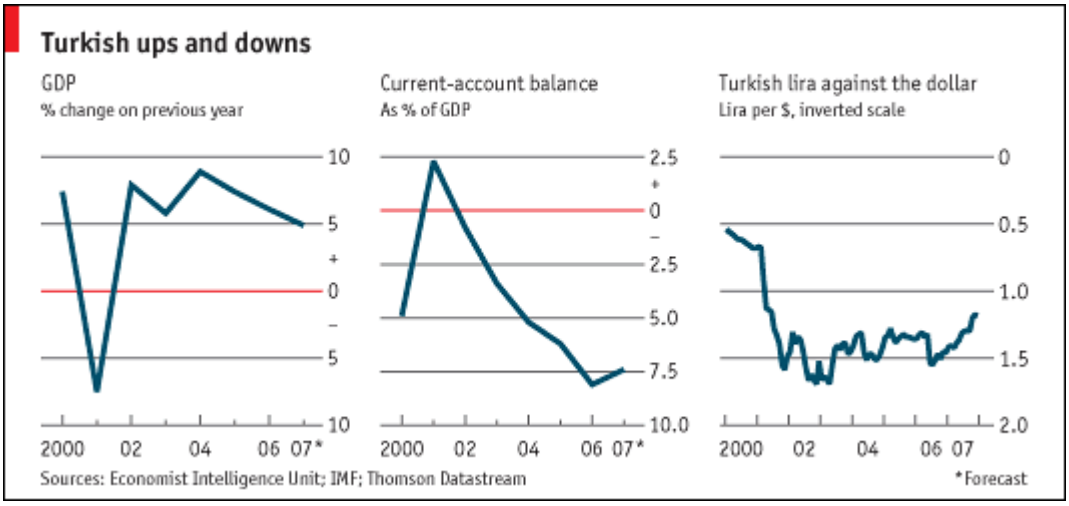
Turkey's economy

A cloud no bigger than a hand

Dec 13th 2007 | ANKARA AND ISTANBUL
From The Economist print edition

The Turkish economy is doing well, but it is also vulnerable



Get article background

IN 2001 Turkey's president, Ahmet Necdet Sezer, flung a copy of the constitution at the prime minister, Bulent Ecevit, helping to plunge the country into its worst financial crisis since the war. This year Turkey has lurched from one political mess to another. In April a top general threatened a coup; an early general election was held in July; in August Abdullah Gul, a former foreign minister whose wife wears an Islamic-style headscarf, became president over the army's objections; then Turkey threatened to invade northern Iraq. Yet, in contrast to 2001, the markets have barely blinked through all the turbulence.

In truth, the economy is far healthier than it was, thanks mainly to a rigid adherence to IMF-prescribed reforms on the part of the ruling Justice and Development (AK) party. Since AK came to power in 2002 GDP growth has averaged 6.6%, inflation has fallen to single digits and foreign direct investment (FDI) has soared. AK's economic record is one reason why it won a sharply increased share of the vote (although fewer seats) in July.

Yet Lorenzo Giorgianni, the IMF's top man for Turkey, rightly says that this strong economic performance should not be taken for granted. Year-on-year GDP growth in the third quarter was the lowest for six years, at just 1.5%. The credit crunch and fears of an American recession are curbing investors' appetites for emerging markets. Turkey, with a huge current-account deficit, is especially vulnerable. Negotiations for Turkish membership of the European Union, the prospect of which is an anchor for investor confidence, have soured. The IMF programme itself is due to expire next May and the government has yet to decide whether to renew it.

The current-account deficit is being boosted by a rising energy bill. As manufacturers shift to higher value-added goods, they need costlier inputs. Coupled with an overvalued Turkish lira, all this has served to push up the import bill. In previous years the deficit was financed by hot money, making the economy more vulnerable. Now nearly two-thirds of the deficit is covered by FDI, which may hit $22 billion this year. Metin Ar, president of Garanti Securities in Istanbul, predicts that, with the privatisation of motorways and plans for new energy-distribution networks, FDI could rise to $30 billion next year. “Foreigners are so keen to get a foot into the market that they are happy to pay double, triple the real value of assets.”

With their dizzyingly high profits and much untapped retail potential, Turkish banks look appealing targets. New regulations can require capital-adequacy ratios to be as high as 20%, against the

international minimum of 8%. “We don't allow any bank to go below 12%,” says Mehmet Simsek, the economy minister. He adds that the state-owned Halkbank is soon to be put on the block.

Mr Simsek, who was snatched into the job from Merrill Lynch in London, agrees that “markets like external anchors” and concedes that Turkey is not immune to external shocks. Yet he sees no crisis on the horizon. His main task is to push through a social-security reform that is a test of the government's commitment to reform. His biggest bugbear is high labour costs. He provoked an outcry when he complained that Turkey had one of the highest wage burdens among OECD countries. High taxes on labour, plus onerous welfare benefits, are a big obstacle to the creation of new jobs. Unemployment hovers at around 10%.

There is little doubt that Mr Simsek has the will and the brains to do what is needed. Ercan Uygur, an economist who taught Mr Simsek at Ankara University, says he was “one of my best students”. Yet some political observers worry that Mr Simsek, who is only 40, may not have enough clout. Unlike his predecessor, Ali Babacan, now Turkey's foreign minister, Mr Simsek is a newcomer to AK politics. His swift rise has provoked some jealousy within the party.

In truth Mr Simsek cuts an unusual figure in the government, and not only as a former investment banker with an American wife. He was born into grinding poverty in the mainly Kurdish province of Batman. He did not even learn Turkish until he was six. By his own admission, he is more comfortable speaking English. A big Shakira fan, he provoked mirth at a recent cabinet meeting when he misused the word *transparan*, meaning see-through, while talking about the budget.

Yet for now, at least, Mr Simsek has the full confidence of his prime minister, Recep Tayyip Erdogan. And it is Mr Erdogan who calls the shots. The concern is whether it may be Mr Simsek who gets the blame should the economy slow further and foreign investors take fright.

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Charlemagne

A fishy tale

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From The Economist print edition

Can fish fish themselves? Only in one of the European Union's maddest schemes

Illustration by Peter Schrank

IN RATIONAL systems of government, officials do not enjoy hearing that one of their policies is a shambles. Yet that is what happened when the Court of Auditors recently declared that the European Union's common fisheries policy (CFP), under which the European Commission sets maximum allowable catches, does not work. The auditors found that the actual level of catches is “unknown”, thanks to gaps, errors and “mis-statements” (ie, fibs) in data sent to Brussels by national governments. Most rule-breakers are not caught; those caught are seldom punished; and the few who are punished face trifling fines. Schemes to reduce overcapacity in fishing fleets have been subverted. This has severe effects. A survey of the north-east Atlantic found 81% of fish stocks to be dangerously over-exploited.

So why does the commission welcome this damning report? Because enforcing the CFP is largely a job for national governments. That turns the report into ammunition in a fight between Brussels and national capitals over who is to blame. One commission official insists that “on controls, it is the member states' fault.” The list of cheats features Italy (“really bad”), Poland (“bad”) and Spain (“a bad reputation round the world, for hidden compartments, illegal nets, the lot”). It also includes those who most criticise the CFP, such as the Dutch and British (Scotland was notorious for “black” landings, but has improved after nasty scandals). It is the same with over-fishing. Each autumn the commission proposes new limits. But the actual quotas are fixed every Christmas by national ministers in a sleepless, two-day marathon.

The annual fisheries council (this year's begins on December 17th) is described by one official as “the sickest thing about the CFP”. It even has its own, squalid traditions. Before the council, the commission proposes quotas that are larger than those recommended by its scientific advisers. National ministers then expand the quotas once again. In recent years, the final numbers have been 50% higher than the scientists advised. And then national fishing fleets break even these higher quotas.

To most Eurocrats, the problem is selfish national interests, and the solution is tougher EU-wide controls. The CFP may be flawed, but if countries parcelled out the fish among themselves there would be none left, says one official. “We'd be discussing where to import fish from.” To Eurosceptics, the blame rests with the EU: the CFP has forfeited the confidence of fishermen and the public (who are disgusted that quotas force fishermen to chuck dead fish back into the sea). Their answer is to keep Brussels out. British sceptics even murmur, eyes a-gleam, about Royal Navy warships patrolling to keep out foreign interlopers. (They are less good at explaining how British fishermen could stop the neighbours from over-fishing in non-British waters.)

National governments like to spread the blame around too. Some even admit that their fishermen cheat.

A 2004 report by the British prime minister's strategy unit called low levels of compliance in the industry “endemic”. But the prize for unintentional comedy goes to France, whose officials once blamed the fish for a huge court fine slapped on French authorities for allowing illegal landings. (The ploy turned on a daring, if grammatically correct, use of reflexive verbs, so that a ministerial statement blamed undersized hake that *se pêchaient et se vendaient*, suggesting the fish had fished and sold themselves.)

Apart from the fish-blaming French, everybody has a point. The behaviour of national governments is simply the tragedy of the commons writ large. One official admits that discarding dead cod because they breach quotas is “obscene”. The commission is studying the policy of Norway, where all fish must be landed, and over-quota fish are bought by the state for a modest sum. Clever nets could help in southerly waters, where dozens of species swim together. Officials also grumble about hypocrisy: fishermen quietly discard lots of fish so as to pack their holds only with the most valuable. Many fishermen cheat because they think the scientists are wrong, or because everyone else is, or because they cannot make a living otherwise.

The force of the market

In the end, though, arguments about how to control national fishing fleets miss the biggest point. A bolder reform would create a pan-European market in fishing rights, in which efficient skippers could buy, sell and rent tradable quotas (used in places like New Zealand, and also as domestic policy tools in parts of Europe). The resulting Euro-fleet would be smaller and easier to contain. It would also need fewer controls, as owners of big expensive boats have more incentive to preserve stocks.

A Spanish official says that his country, with a competitive fishing industry, would support a single European market, at least for offshore fleets. The Dutch might be interested. Unfortunately, that is about it. Even the British are protectionist about fish, forcing foreigners who want to buy their quotas to maintain a lifetime “economic link” with Britain by hiring British crews, or landing fish in British ports.

Politicians' heads tell them that fishing accounts for less than 1% of the EU's economy. Their hearts say it is a brave, dangerous business, bringing life to isolated ports where other jobs are hard to come by. Emotion helps to explain a (mad) founding principle of the CFP: “relative stability”. This means that the share of fish stocks doled out to each country should be stable in relative terms, so that no national fleet loses ground to any other. This rigidity has blocked serious consolidation, as member countries cling to every last quota they can get.

Europeans need to stop blaming each other for the failures of the current CFP. Instead, they should ponder the example of one of the EU's few uncontested triumphs, the single market, and apply its lessons to the seas. That would be rational. It might even be good for the fish.

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The state of the Tories

Coming, ready or not

Dec 13th 2007
From The Economist print edition

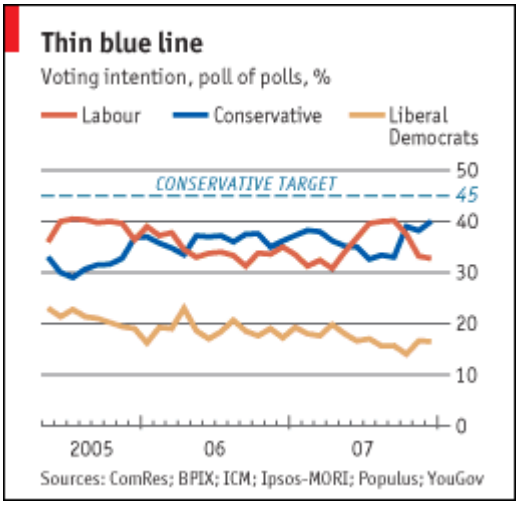
PA

The Conservatives are doing well, but not well enough

DAVID CAMERON, who marked his second anniversary as leader of the Conservative Party on December 6th, knows the wisdom of at least one of Westminster's ancient maxims. A week really is a long time in politics: at the start of his party's conference in October, he looked likely to lose the snap election that Gordon Brown, riding high as prime minister, was expected to call; by its end, he had regained a momentum that has yet to desert him.

He must now hope that another grizzled saying is true: that oppositions don't win elections, governments lose them. Recent events have compromised the government's claims to competence (the taxman lost the personal data of millions of citizens) and probity (a party-funding scandal forced the resignation of Labour's general secretary). Labour's support has fallen to about 33% (see chart). Yet the Tories have not pulled away decisively: they are polling at around 40%, which is short of both the 45% mark that Mr Cameron has made his party's target and the 60% that Labour scored under Tony Blair in 1995. Labour then was more than 30 points ahead of the governing Tories; today the Tories are less than ten points ahead of Labour.

Conservatives note that they face a stronger government than Sir John Major's. None of its recent mistakes has been as ruinous for voters as the recession of the early 1990s. Neither is it as exhausted of ideas: Sir John never produced anything as vaulting as the children's plan unveiled on December 11th.



Yet the Tories must raise their game. Thanks to uneven constituency sizes, the Tories need more votes than Labour to win the same number of parliamentary seats; their current poll ratings do not suggest that they would gain a majority. And if Mr Brown's failure to call a snap election hurt him politically, it also raised the bar for Mr Cameron. A narrower Labour majority would have been a fine result this autumn; a Tory victory is expected in an election in 2009 or 2010. But why, given Labour's woes, are the Tories not out of sight?

One reason may be a lack of high-calibre people. Tories insist they are a match for Labour in key positions. None of their top four—Mr Cameron, George Osborne, the shadow chancellor, William Hague, the shadow foreign secretary, and David Davis, the shadow home secretary—is outclassed by his Labour opposite number. But lower down is a problem. Mr Cameron is said to be disappointed at the number of cabinet-worthy MPs at his disposal.

Another factor is the Tories' perceived fuzziness on policy. A row over selective grammar schools began a bad summer for the party. Talk of the voluntary sector playing a bigger role in delivering public services lacks flesh. And foreign-policy views seem less clearly defined than Labour's before 1997, when Mr Blair held ambitions to make Britain an unambiguously European nation.

Yet much policy wonkery is going on behind the scenes. Commissions set up to investigate public services, social justice, competitiveness, the environment, the constitution and security have reported back, often in epic detail. Green papers have been produced on school reform and energy; more are scheduled. An implementation unit is being created to examine how policies can be put into practice in government. Only within Mr Brown's economic remit was such exhaustive work done when Labour was in opposition.

Indeed, if Mr Cameron's first year at the Tory helm saw style privileged over substance, the party may now have lurched too far in the opposite direction. Energy expended on policy detail is energy not spent articulating an animating vision of how the country would be transformed by a Tory government. Even Mr Cameron's supporters concede that he is better at conveying competence and reasonableness than at rousing passion for change.

The Tories also face a challenge from the Liberal Democrats, who announce their new leader on December 17th. Either Nick Clegg, their home-affairs spokesman, or Chris Huhne, who holds the environment brief, will make a pitch to those voters disillusioned with Labour but sceptical about whether the Tories have changed. Many such voters are outside the south-east, the Tories' natural home. Mr Cameron's appeal in marginal constituencies in the midlands and the north has yet to be tested, though Tories point hopefully to results in the local elections in May.

Other hazards remain. One is Boris Johnson, the party's popular but disorganised candidate in London's mayoral election next May. Party staff are concerned that a lazy campaign ending in a heavy defeat by Ken Livingstone, the Labour incumbent, would reflect badly on Mr Cameron. Some believe a victory for Mr Johnson would be even worse, if he turned out to be a shambolic leader of Britain's capital.

Another is the possibility of a right-wing revanche. Mr Cameron's modernising creed has not put down deep roots within his party: many MPs and activists only tolerated a move to the centre because it seemed a winning strategy. That the party's recent recovery began with a promise to lift millions of households out of the inheritance-tax net may embolden them to start asking for more of the same.

It may be that the government's various troubles—perhaps including an economic downturn next year—will be enough to hand the Tories the next election. Mr Cameron would be unwise to count on it.

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The European treaty

Blame the secretary

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A convenient diary mix-up proves embarrassing for the prime minister

IT DID not take long for the “Macavity” jibes to start, once word spread that an unconvincing diary clash would prevent Gordon Brown from attending a ceremony in Lisbon to sign the European Union's controversial reform treaty. When it subsequently emerged that Mr Brown would fly to Lisbon on December 13th anyway, to sign the treaty discreetly after the main ceremony had finished, the jokes gave way to head-shaking disbelief in several capitals.

Westminster insiders long ago began to notice that Mr Brown has a talent for not being there when trouble hits. Lord Turnbull, once Britain's top civil servant, merely put a name to it when he compared him last March to T.S. Eliot's fictional cat. Now Europeans are learning about this trait for themselves.

The treaty is deeply unpopular in Britain. It is disliked both by those who fear that it undercuts their country's freedom of action in important respects and by those who resent being denied a referendum on it, even though one was promised by Tony Blair, Mr Brown's predecessor, on the constitution that the treaty largely re-packages.

So while EU leaders prepared for a familiar ritual on December 13th (solemn signatures in some ancient palace—or, in this case, a monastery—followed by champagne toasts and speeches about European unity), Mr Brown announced that he could not miss a scheduled grilling by committee chairmen in the House of Commons. Only after that could he fly to Lisbon to catch the end of an EU leaders' lunch. At some point, during coffee perhaps, he would pop off and sign the treaty.

Alas for Mr Brown, this grudging half-visit seems the worst of all worlds. Eurosceptics in Britain are enraged that Mr Brown is signing the treaty at all. In Brussels the prime minister's antics inspired embarrassment and puzzlement—not least when his aides insisted that the timing of the Lisbon ceremony was known too late to alter Mr Brown's diary. Pained European officials noted that Mr Brown was personally informed of the date, time and place of the ceremony in October by the prime minister of Portugal, which holds the current rotating presidency of the EU.

Strictly speaking, diplomatic protocol did not require Mr Brown to be there—his foreign secretary, David Miliband, was already due in Lisbon for the ceremony, and ministers have signed treaties before. The Single European Act, for example—a more significant text—was signed by Lynda Chalker, then a junior minister. But the Portuguese had hoped that if national leaders signed the treaty in person, the symbolism of the event would draw a line under the crisis provoked in 2005, when French and Dutch voters rejected the original constitution.

Mr Brown's snub will be forgiven—in the end, Brussels folk see it as an internal problem, intelligible only to the British. But the dithering beforehand (unnamed British “sources” had hinted that he might not go to Lisbon at all) was more problematic, as was the lameness of his excuse. In diplomacy, indecision can be as harmful as the final decision taken.

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Corporate crime

Blazing trails

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From The Economist print edition

An intriguing plea deal in America has big implications for Britain

IF BRITISH businessmen were worried before, they are positively quaking now, wondering who will be seized next by the ever-extending arm of American law. On December 10th Conrad Black, a Canadian turned British peer, was sentenced in Chicago to six and a half years in jail for embezzling $6.1m (£3m) from his Hollinger media empire. A fortnight earlier, three British bankers pleaded guilty in a federal court in Houston to wire fraud related to the Enron affair, after being extradited from Britain to face trial.

Both the so-called “NatWest Three”, who are due to be sentenced in February, and Lord Black, who once controlled more than 200 newspapers around the globe, including Britain's *Daily Telegraph*, the *Jerusalem Post* and the *Chicago Sun-Times*, now face the prospect of a spell in one of America's less than salubrious jails, where sexual assault and drug-fuelled violence are often rife. Foreigners are not eligible for a minimum-security prison, but Lord Black is hoping at least for the gentler conditions of the next grade up—a low-security institution.

But help for British white-collar crooks caught in America's legal net may be on the way. Under an unprecedented plea agreement involving the Department of Justice and Britain's Office of Fair Trading (OFT), three British oil executives, who pleaded guilty in a Houston court this week to price-fixing, are being permitted to return to Britain next week. They have agreed that, once back, they will allow themselves to be re-arrested and re-charged by the British authorities with an almost identical offence, to which they will again plead guilty.

Peter Whittle, a consultant, and Bryan Allison and David Brammar, both of Dunlop Oil & Marine, a firm that makes equipment for the oil and gas industry, are accused of conspiring between 1999 and 2007 to fix the prices of hundreds of millions of dollars worth of marine hoses used to transfer oil between tankers and storage facilities. The charge is of price-fixing on a global scale, which affected both the American and the British markets.

Under America's Sherman Antitrust Act, they could have faced up to ten years in jail. Under English competition law, the maximum penalty for price-fixing is half that. According to the men's still-secret plea deal with the American authorities, they are understood to have negotiated jail terms of around two years or less, which they will be allowed to serve in Britain provided the sentence imposed by the English courts is at least as long. If it is not, the Americans reserve the right to seek the men's extradition back to the United States to serve the remainder of their American sentence there.

Alistair Graham, a partner at White & Case, finds the deal a “fascinating development”. His law firm is fighting another extradition case, that of Ian Norris, a British executive facing price-fixing charges on the other side of the Atlantic. “The British and American prosecuting authorities have been developing an increasingly close relationship in recent years.” Both he and others worry, however, that this new spirit of co-operation might “get in the way of British justice”, putting pressure on British judges to hand out more severe American-style sentences.

The differences may shrink anyway, for Britain itself, once thought a touch languid in the pursuit of white-collar crime, is chasing price-fixers more hotly these days. The offence became a crime in Britain only in 2002; if the oil men are indeed tried at home, it will be the first criminal prosecution for price-fixing in British history. The Dunlop deal could blaze a trail.

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Taxing the foreign rich

Collateral damage

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From The Economist print edition

The Treasury may be overdoing the crackdown

FOR years, as chancellor of the exchequer, Gordon Brown dithered over what to do about rich foreigners living in Britain untaxed on their offshore wealth. Spurred by a Tory plan to clobber them, Alistair Darling, who now runs the Treasury, acted in October. His tax changes will bring in £650m ($1.3 billion) a year, far less than the Conservatives were hoping to raise. Even so they are arousing alarm, which a new consultation paper from the Treasury has done nothing to dispel.

Some of the consternation is the usual bleating that arises when people have to pay more tax. But there is a genuine worry about damage to the economy. This risk is the main reason that the government has dragged its feet for so long over reform, as it has wrestled with a trade-off between tax equity and economic harm.

Unlike other taxpayers, rich foreigners living in Britain can shelter their offshore wealth from tax. They do so by claiming “non-domiciled” status, asserting a longstanding connection with another country. This allows non-doms to avoid being taxed on overseas earnings and capital gains on assets held offshore, unless they remit income and gains to Britain. Their favoured status offends against a cardinal principle of tax equity: that taxpayers who have the same income (from wherever it is derived) should pay the same tax.

On the other hand, as the Treasury paper lays out, non-doms, who include shipping tycoons and City high-fliers, pack an economic punch much weightier than their number, currently around 115,000. Their average earnings in Britain, on which they do pay tax, exceed £100,000. As a result, they contributed taxable income of £12 billion to the economy in 2005-06 and paid income tax worth £4 billion.

The danger in imposing a draconian tax regime on non-doms is that many of them may pack their bags and go elsewhere. That could harm the economy and lead to a loss in domestic tax revenues. Aware of the risk, Mr Darling is sweetening the tax pill. From next April, non-doms will face an annual levy of £30,000 to retain their status. This will apply only to those who have been in Britain for more than seven out of the past ten years, however.

The period of grace slashes the number likely to be affected, to around 20,000. Of these, the Treasury says that only 4,000 will find it worthwhile to pay the levy; 3,000 will leave Britain, and the rest will give up their non-dom status, so that they are taxed on their foreign income and capital gains like ordinary Brits.

On the face of it this looks like a reasonable deal, and a more sensible approach than the Tory plan, under which all non-doms would pay a £25,000 levy in order to retain their tax status. The Treasury estimates that this plan would bring in an extra £300m a year but prompt a further 13,000 non-doms to flee the country. It would also deter new temporary foreign workers from coming to Britain.

But what is jarring nerves is that the Treasury also appears to be cracking down on the offshore trusts where non-doms hold much of their wealth. As yet the details are unclear, but there are mounting worries about the direction of travel. “The fear is that Britain's tax regime is becoming unfriendlier and more intrusive for mobile foreigners,” says John Whiting, a tax partner at PricewaterhouseCoopers, an accountancy firm.

The government is not wrong to tighten taxation of non-doms, but it needs to tread carefully. After leaving them alone, arguably for too long, it needs to temper their tax privileges cautiously. The economy needs to keep attracting footloose, smart, rich foreign workers in order to thrive.

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Shaking up education

No place for a child

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Doing less for Britain's allegedly unhappy children might be the best policy

IT HAS been a bad year to be young in Britain. In February UNICEF concluded that Britain was the worst place for children in the industrialised world, ranking it lowest on all sorts of measures, including, heartrendingly, whether children felt their peers were “kind and helpful”. A spate of shootings and stabbings of teenagers by teenagers marred the summer. The autumn saw researchers lining up to report that expensive education policies had had little or no benefit; earlier this month OECD figures showed Britain's schools outclassed by other countries'. Child obesity, teenage pregnancy and under-age drinking in Britain are all high by international standards, and some problems are getting worse. The number of children living in poverty, which had fallen every year since 1999, was shown to have increased by 100,000 in 2005-06.

So when Ed Balls, the schools secretary, stood up in Parliament on December 11th to announce measures to make Britain “the best place in the world for children to grow up”, his chutzpah was impressive. The ten-year “Children's Plan” he outlined was less so. It is a sprawling hymn to government intervention in all aspects of children's lives. “Is it necessary for the Whitehall screwdriver to reach into every school in the country?” asked David Laws, the Liberal Democrats' education spokesman.

The hyperactivity was inspired by a basic observation: that children often fail in school because of what is happening at home. An analysis published on December 13th by the Sutton Trust, an education charity, provides the latest evidence that gaps between rich and poor open up early. Among children born in 2000, the poor ones with a good vocabulary at age three had fallen back just two years later; meanwhile, rich but less verbally adept ones made up ground. If the trend continues, the researchers say, by the age of seven the paths of the two groups will have crossed.

The solution offered in the children's plan is to get schools to do many of the things that a good parent would do. In future all schools are to stay open from 8am to 6pm in term-time, and offer a range of activities, from artistic to sporting. And other professionals are to operate from the schools: social workers, health visitors and even community police officers.

Schools will also get their hands on children earlier. The entitlement to free nursery care is being extended from 12 to 15 hours for three- and four-year-olds and to 20,000 two-year-olds from the poorest families. An “early-years foundation-stage” framework—already nicknamed the “toddlers' curriculum”—is due to come into force next autumn. It sets out exactly what small children are expected to be able to do, from birth to age five, and child carers in both state-run and private nurseries will have to monitor progress against these standards. There are 69 early-learning goals and more than 500 development milestones, including the instruction that under-ones should “play with their own fingers and toes” and one-year-olds should “become absorbed in putting objects in and out of containers”. Three-year-olds must start learning to read and write—earlier than children in the rest of Europe, indeed in most of the world.

But some fear that this attempt to help will in fact compound the problem. Opposition parties and parent-teacher associations attacked the expansion of government monitoring and measuring into the earliest years. A starry coalition of concerned professionals, including Penelope Leach, an expert on child care, and Dorothy Rowe, a psychologist, have launched a campaign against plans to make pre-school care more structured and academic in style. Far from helping British children catch up with their peers in other countries, the campaigners say, such a “head start” in literacy may cause emotional and behavioural problems later on. In fact, British children should start formal school later than they do now—which, at age four, is already younger than children in most other places.

Some optimists note that the children's plan offers a few scraps of comfort to those who worry that British youngsters are being frogmarched through their childhood, with little time to stand and stare. Summer-born children, whose younger start puts them at a disadvantage right into secondary school,

may be allowed to wait a little before starting school. Britain's rigid approach to grouping children by age, regardless of educational progress, may be relaxed a little. And if the results of a two-year pilot study are favourable, youngsters will no longer take the same tests together at the end of primary school, but will have tailored papers appropriate to their level whenever teachers deem them ready.

The biggest worry, though, is that a plan that sets out to do everything for all children will end up doing nothing well. Removing the spotlight from schooling risks losing the focus necessary to improve the results of the groups that fall behind, says Alan Smithers of the University of Buckingham. He likens the plans for schools that run all aspects of children's and families' lives to the sort of corporate merger that sees cross-cutting synergies and holistic opportunities—but ends up destroying value. “I can imagine that in 2020 an education minister will announce an exciting new sort of institution that concentrates exclusively on educating children, and makes a virtue of doing that one thing superlatively,” he says. Perhaps they might be called schools.

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Counter-terrorism proposals

Scrambled

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New plans for detaining suspects have been rushed out. Why the hurry?

“A MORE comprehensively consensual approach than we have ever taken before” was promised six months ago, when the government announced its fifth counter-terrorism bill in eight years. Previous bills had been piloted through Parliament at top speed, dividing MPs and in some cases leading to legislation that breached human-rights laws. This time a soothing consultation period and cross-party co-operation would prevent squabbling and mistakes, ministers pledged.

The consensus approach now seems to be on the rocks. On December 6th the home secretary, Jacqui Smith, called an emergency press conference to announce plans to hold suspected terrorists for longer before charging them, a power long coveted by the government and opposed by other parties. Opposition MPs, who say they were shown the detailed plans no earlier than journalists were, accused the government of “pig-headed stubbornness”. On the contrary, Ms Smith retorted, it is they who have refused to compromise.

Sensing widespread hostility to a permanent increase in the current 28-day limit, the government now proposes to give the home secretary the power to increase it temporarily, subject to various safeguards. The new limit would be 42 days: it could be invoked for just two months and only with the approval of police, prosecutors and Parliament. A judge would also have to agree to each suspect's continued detention each week. The temporary nature of the extension makes it similar to the emergency powers already available under the Civil Contingencies Act 2004, Ms Smith claims.

The new plan has a whiff of hasty drafting about it. One odd feature is that even if Parliament voted against a 42-day extension, it would remain in place for a month. Given that a suspect would probably have been held for a couple of weeks before the extension was invoked, he could end up being detained for a full 42 days despite Parliament's opposition.

Another worry is that MPs would not be permitted to hear evidence that could prejudice a subsequent trial, so their vote would in effect be blind. Liberty, a civil-rights outfit, points out too that whereas existing emergency powers can be struck down by a court if they are applied illegally, the proposed new powers would be “primary legislation” and therefore immune to judicial review. Reports by the parliamentary Home Affairs and Human Rights committees on December 13th and 14th found no reason to go beyond 28 days.

The puzzle is why the government has provoked this fight now. The doughty Ms Smith has plenty on her plate already, including a tussle with the police over a miserly pay settlement that has provoked demands from some officers for the right to strike. The prime minister, Gordon Brown, himself buffeted by bad news lately, may have his own reasons for moving early on the matter (see Bagehot). But there may be even shorter-term reasons. Ms Smith was expected to announce her plans after the Home Affairs Committee had made its recommendations; by pre-empting its report she stole a little of the initiative and perhaps hoped to bounce MPs into backing a version of her plan.

If the proposals make it into the counter-terrorism bill, which is expected early next year, Mr Brown will need to quash dissent in his own ranks if it is to pass. An attempt by his predecessor to extend the limit to 90 days earned Tony Blair one of his two parliamentary defeats. On December 11th Frank Dobson, a normally loyal Labour MP, held a meeting with rebellious colleagues to discuss mounting an insurrection. Only a dozen turned up, but plotters claim that resolve elsewhere is firmer than expected. Optimists note that Ms Smith's announcement of the proposals was made in a press conference rather than in the House of Commons, which may mean that they are not yet set in stone. They must hope to face her down before her plan becomes part of a bill; if they fail, a bigger showdown looms.

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Forbidden swords

Disarmament

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From The Economist print edition

A symbolic measure will make little difference to violent crime

EVERY summer, in the Cambridge suburb of Romsey Town, a man emerges from his house dressed from head to foot in black and clutching a *katana*, a curved Japanese sword. Fortunately for his neighbours, the target of his ire is the weeds that have grown up in his garden. Half an hour later, the undergrowth reduced to stalks, he goes back inside.

Not everyone is so harmlessly eccentric. On December 10th a man appeared at an Inverness court charged with attempting murder with a similar weapon. On the same day, to much fanfare, the Home Office said it would add “samurai swords” to a list of exotic-sounding proscribed weapons. These include butterfly knives, blowpipes and *shuriken* (throwing stars). It is already illegal to carry bladed weapons; adding the swords to the list will make it illegal to import or sell them.

The crackdown is the latest attempt to calm worries about violent crime. Although such crime has fallen overall, attacks by strangers are as common as ever and getting nastier. A string of teenagers have been slain (with knives or guns) in London, Liverpool and Manchester. Laws have been tightened, penalties for possessing knives increased and teachers given powers to search their pupils.

But the latest measure looks largely symbolic, says Richard Garside, a criminologist at King's College, London. Despite the gory headlines, sword attacks are rare. A few famous cases stand out, such as the killing of a Liberal Democrat councillor in 2000. Police reckon there have been around 80 attacks since 2003, with five people killed. In 2006, by contrast, 210 died from gunshot wounds alone. No numbers are kept for knife deaths, but estimates of attacks range from 22,000 to 60,000 a year.

In any case, the precedents for a ban are not encouraging: gun crime has risen dramatically since legislation following the Dunblane massacre in 1996 made handguns of all kinds illegal. The sword ban is less swingeing, since exceptions will be made for martial-arts clubs and collectors. And it seems oddly specific: only “single-edged, curved blades” will be prohibited, leaving straight-bladed or double-edged weapons untouched.

The few criminals who enjoy swordplay may simply change their preferences. The same websites that advertise “samurai swords” for sale often feature similar, but slightly smaller, “ninja swords”—which, with their straight blades, may be a good substitute.

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Bagehot

Twenty-eight days, 28 months

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Illustration by Steve O'Brien

Gordon Brown risks provoking two dangers that he is trying to avert

IN DOSTOYEVSKY'S novel “The Idiot”, the hero—part savant, part blundering naïf—arrives at an important party with only one goal in mind: not to break the hostess's valuable Chinese vase. He wants to keep his distance, but ends up smashing it. The episode is a nice parable of anxiety-management; it shows how trying too hard to avert a danger can instead make it happen.

Gordon Brown is himself part deep-thinking ascetic, part inadvertent blunderer, and he risks making the same mistake, in more than one way. A wrong-headed overkill—one that may help to induce the outcome that is most feared—is evident in his controversial plan to increase from 28 days the time suspected terrorists can be held without charge. Behind that lies another counterproductive anxiety, one which is hobbling Mr Brown's broader mission: his yearning to keep Labour in office beyond the roughly 28 more months that, by coincidence, are the maximum its current mandate allows.

In fact his best hope of sticking around for longer is simple: to stop worrying about the electoral vase in the corner, give up his underwhelming party tricks and concentrate on the far-sighted governing that, beneath the mishaps, he is capable of delivering.

The days are numbered

Mr Brown sensibly compares the Islamist threat that Britain now faces to the cold war, describing it as a generational struggle that must be waged in classrooms, libraries and prisons, as well as with bullets. But this grown-up realism has been lost in the furore over pre-charge detention, which has again become a totemic but needless test of the government's strength.

The prime minister and Jacqui Smith, his embattled home secretary, now want to give the police the temporary power to hold terrorism suspects for up to 42 days before charging them. That is a humbler goal than the push for a 90-day maximum that in 2005 brought Tony Blair his first defeat in the House of Commons, after which the current limit was set. The latest figure splits the difference (never an encouraging sign) with the one of 56 that has been floated since Mr Brown became prime minister. The new power would be overseen by judges and MPs, and would avowedly be invoked only in exceptional circumstances. Unlike his predecessor, Mr Brown seems genuinely attached to the concept of liberty, but thinks these provisos make his scheme compatible with that principle.

Unfortunately, they don't. For example, the parliamentary scrutiny that forms the main extra safeguard—MPs would get a vote on whether the home secretary is right temporarily to stretch the detention limit—would sometimes be exercised only after the suspect had been banged up for the extra weeks. Since it would make their job easier, the police are keen on the move; but most other legal and security bigwigs doubt that the extension is justified. The government itself accepts that no circumstances have yet arisen in which more than 28 days have been required, but says such cases may happen in the future—an open-ended rationale that might be used to advocate more or less anything (torture, say, or maybe the odd covert assassination).

So anyone who thinks Britain may be quietly sliding towards a state of permanent emergency should worry (again). But even fervent utilitarians should pay attention, for two reasons. First, although the evidence backing the need for change is scant, there is plenty of proof that insensitive policing and draconian laws risk alienating, and perhaps radicalising, British Muslims: an unintended outcome much more catastrophic than the Idiot's broken ornament. Second, this itch to push beyond 28 days epitomises what has been the key failing and frustration of Mr Brown's bid to survive beyond 28 months: a tendency to obscure his own merits, and damage his own prospects, by myopically pursuing short-term advantage.

Governments are naturally inclined to insulate themselves from the charge that they have been lax with the public's safety; many security initiatives have an obvious political edge. In the case of Labour's anti-terrorism laws, however, the edge has been especially sharp. Mr Brown insists that the Conservatives' opposition to his new policy is opportunistic. Since some Tory MPs privately agree with the government, his indignation is right as well as righteous. But the way the latest plans have been rushed out—before some inquiries designed to inform them are complete—casts doubt on his motives too. At least one of them may be a pressing desire to make a tabloid-friendly splash, to dispel the lacklustre impression created by the calamities of the past few weeks. The prospect of succeeding in Parliament where Mr Blair failed may also be a lure.

Those unofficial explanations reflect the motives that have troubled Mr Brown's short premiership. These arose from the circumstances and timing of his succession. Mr Brown needed to distinguish himself from his predecessor, impress a jaundiced electorate and do it in hurry—or face being seen as a fag-end failure. But his clumsily urgent efforts to obviate that possibility, most obviously in the self-inflicted humiliation of the non-election, have instead made it more likely. Given the chance to expound on them, he has statesmanlike things to say about international affairs and thoughtful ones about the constitution. But just as his sensible thinking on terrorism has been overshadowed, so far his best ideas have scarcely got a hearing.

Even if his worst electoral fears are realised, Mr Brown could make useful contributions in these fields, and others such as energy security, in the next 28 months. But if he can stick to the long perspective he can still avoid the Idiot's self-inflicted fate. Elections, after all, are more unsentimental referendums on the future than they are judgments on the past. Giving up the obsession with going beyond 28 days would be a good way for Mr Brown to signal a new, patient approach. Can he?

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Reforming jihadists

Preachers to the converted

Dec 13th 2007 | JAKARTA
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Reuters

The persuasive powers of reformed jihadists are being used to "re-educate" terrorists. This story looks at Indonesia, the next looks at the Middle East (see article)

MEETING Nasir Abas at one of Indonesia's trendiest hotels, it is hard to imagine that this polite man in casual Western clothes was once a leader of Jemaah Islamiah (JI), the region's most dangerous terrorist group. Now his job is to persuade his former comrades to give up the idea of perpetrating violence against the West in the name of Islam.

As he explains in his mild-mannered way, he uses two lines of argument. One is theological: he points out the verses in the Koran that forbid aggressive warfare, and which insist that the lives of non-combatants, especially women and children, must be protected. The other line is more strategic: to convince his listeners that not all Westerners are anti-Muslim, he stresses the fact that many Americans opposed the war in Iraq. And he challenges them: have terrorist bombs made people respect Islam more? Some prisoners angrily reject his arguments, he says—but as long as they are still prepared to listen to them, he thinks it worth continuing to try.

Indonesia's anti-terrorism police, like their counterparts in many other countries, have set up a programme to "deradicalise" Islamist militants. Just as the internet now provides "courses" designed to persuade young Muslims that terrorist violence is legitimate—by arguing, for example, that killing civilians might be necessary in some circumstances—governments and traditional theologians are working hard to develop and use arguments that guide people the other way.

In many countries, moderate Islamic clerics are expected to do most of the persuading—and they must run the risk of being viewed as government stooges. The Indonesian authorities have taken the risky step of using ex-militants, some of whom have only slightly moderated their views on when violence is acceptable.

Like many of the jihadists round the world who enjoy sufficient "street credibility" to sway younger hearts and minds, Mr Abas won his spurs as a fighter in the American-backed campaign against the Soviet occupation of Afghanistan. While some Saudi veterans of that campaign began directing their energy against their homeland, Mr Abas—who was born in Singapore but grew up in Malaysia—returned to his own native region to spread the ultra-Islamist fire. He set up a JI network in the Philippines.

He had moved to Jakarta by the time the group bombed a nightclub in Bali in 2002, killing 202 people. He insists he was not involved in that operation and always disapproved of attacking civilians. But as a leading strategist in the organisation and the brother-in-law of one of the main conspirators, Mukhlas, he was arrested and given a short jail sentence.

The 2002 bombing, followed by others against foreign targets in Bali and Jakarta, forced an overhaul of Indonesia's police and intelligence services. As JI members were rounded up, two new police squads decided to see if they could get some of them to co-operate. Through kindnesses, such as arranging family visits, they hoped to dispel the jihadists' assumption that all policemen are *thoghut* (un-Islamic), and thereby to encourage them to reconsider other deeply held views. The next step was to get those militants who still believed in the rightness of the bombings to listen to those, like Mr Abas, who had disapproved of them all along, or other co-operating but harder-line militants like Ali Imron, who had become convinced that the attacks were wrong only more recently.

Unlike many other Muslim countries that are experimenting with deradicalisation schemes—these include Egypt, Yemen, Saudi Arabia and Algeria—Indonesia has a relatively open political system where the actions of the police must face public and parliamentary scrutiny. There was uproar when the police handlers of the scheme were seen treating Mr Imron, who was directly implicated in the Bali bombings, to coffee at a fancy Jakarta mall in 2004. Since then he has kept a lower profile, staying at the capital's police headquarters. In another sign of Indonesia's openness, the authorities gave an independent think-tank, the International Crisis Group (ICG), enough access to make a broad evaluation of their scheme.

The ICG's report, in late November, was fairly positive, though it expressed some serious worries. Its main one was that the extreme corruption and disorder found in Indonesia's prisons may be negating all the scheme's attempts to persuade jailed militants that the system they are fighting is not utterly *thoghut*. With some prisoners rejecting attempts to deradicalise them, the ICG says the scheme may be succeeding only on those who are not particularly dangerous. The ICG's Sidney Jones says JI has gone “dormant”, so it may no longer make sense to focus efforts on its members. Meanwhile, the unreformed radicals may be recruiting among the ranks of ordinary prisoners as fast as the police-run scheme is deradicalising. And, outside the prison walls, other influences such as the dozens of *pesantren* (boarding schools) run openly by JI men, may be turning out more young militants.

A policeman close to the project admits that probably, more radicals are being created than are being won over to moderation. But he insists that the project has at least got prisoners to divulge valuable intelligence. The country now has some policemen with insight into the militants' thinking—before, they hadn't a clue. This has helped police round up many of JI's leaders including, in June, the group's presumed military chief, Abu Dujana, who went on trial this week. And there have been no more bombs since 2005.

Still, any crime-fighting strategy based on the idea of “taking a thief to catch a thief” can encounter ethical dilemmas. In Indonesia, some of the people the police hired to deradicalise prisoners are only marginally less militant than those being lectured to. Mr Imron apparently still argues that bombings could be legitimate in Indonesia—if there were sufficient public support for them.

The police's rationale for letting him argue this is that his fairly extreme views give him more credibility among his “pupils” than someone more moderate and pro-establishment could ever have. As the ICG report notes, the whole project is based on the assumption that, by bolstering a somewhat more moderate Islamic view of the world, the most radical, violent variety is weakened. That is hard to disprove—but by lending credibility to some relatively fundamentalist views by paying someone to argue them, the authorities may be in danger of appearing to endorse them.

For all the doubts, Indonesia's deradicalisation programme does at least seem more likely to produce positive results than the methods being tried in Thailand's Muslim-majority southern provinces. The army (which seized power in a coup last year) has scooped up hundreds of young Muslims merely suspected of “links” to the region's separatist uprising, and sent them to camps for compulsory “job training”. Last month a group of almost 400 of them won a court order declaring their detention illegal. If any policy is likely to turn locals against the authorities and act as a recruiting-sergeant for militants, this is it.

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Public repentance

A jihadist recants

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In a propaganda coup for "re-educators" across the Muslim world, a jailed ideologue of violence changes his mind

AFP

Zawahiri: unfazed by faxes

WHEN an eloquent advocate of terrorist violence deploys his rhetorical powers and scriptural knowledge in the opposite cause, that is a triumph for the authorities—even if the "repentant" extremist is in prison, and has presumably been under strong pressure, to put it mildly, to alter his thinking.

That has just happened in Egypt—a country whose theological debates, whether in jails, Friday sermons or over the internet, matter a lot, and can reverberate across the Muslim world. One of the main ideologues of the Islamic Jihad movement—Sayed al-Shareef, better known as Doctor Fadl—has produced an elaborate recantation of his extremist views. His revised opinions have been serialised in several newspapers.

For Egyptians, this is a new twist in a semi-public argument that has been going on since the massacre of 58 tourists in Luxor in 1997. That atrocity prompted a wave of questioning within jihadist ranks. Over the next few years, imprisoned leaders of the Jamaa Islamiya, the Egyptian group to which the Luxor killers claimed allegiance, published a series of works condemning this act, deploring the group's previous use of violence, and redefining *jihad* in more peaceful terms.

Those recantations are often cited as a reason for a fall-off in Islamist terrorism inside Egypt. But leaders of Islamic Jihad—the other ultra-militant group in Egypt—rejected the new moderate line. Its overseas branch, led by Ayman al-Zawahiri, forged an alliance with Osama bin Laden's al-Qaeda. Global jihadism still thrived, and it returned to Egypt with attacks on beach resorts in Sinai in 2004 and 2005.

So the latest reversal by a prominent member of Islamic Jihad is a dramatic event—even if it prompted Mr Zawahiri to ask caustically whether Egyptian jail cells now had fax machines, and whether they ran on the same electricity source as the instruments of torture.

Mr al-Shareef's credentials as an ideologue are "second to none," says Stephen Ulph, a terrorism-watcher at the Jamestown Foundation, a think-tank. In recent years, Mr al-Shareef had defended the legitimacy of violence against regimes that purported to be Muslim but were not zealous enough to deserve the name. Now he has reversed that stance, warning against branding fellow-Muslims as infidels.

As a theological statement, the new line from Mr al-Shareef dovetails with the positions developed by establishment scholars in several other Arab states where deradicalisation programmes are in progress. Some governments claim these have been very successful. Saudi Arabia says that out of perhaps 3,000 terrorist suspects and sympathisers arrested since 2003, some two-thirds have agreed to re-education programmes. Of these, 700 have renounced former beliefs and been released. Beyond religious reindoctrination, the Saudi effort also includes psychological counselling and, perhaps crucially, direct financial and social support to help woo radicals back to "civilian" life.

Yemen claims to have rehabilitated hundreds of former radicals, and points to the diminution of terrorist attacks as one result. Egypt has reduced its prison population of jihadist suspects from an estimated 20,000 in the late 1990s to below 5,000 today.

Yet some people doubt the effectiveness of either re-education or high-profile penitence in reducing the jihadist urge. One important question is whether jihadist violence is primarily a product of religious ideology, or of geopolitical grievance. The feeling that Islam is "under threat" in many parts of the world is arguably a politically motivated cry of victimhood rather than a statement about the meaning of sacred

texts.

Even the al-Shareef recantation, like those of the Jamaa Islamiya, seems to accept the legitimacy in principle of violent *jihad* in defence of the faith. Once you accept that proposition, it can rapidly lead to a hard argument—more political than theological—over who is on the attack, and who is on the defensive, in the relationship between Islam and the rest of the world.

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Information technology in India

Gravity's pull

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Is India's computer-services industry heading for a fall?

OnAsia

MOST foreigners visit Mysore to see its many palaces, testaments to bygone royal splendour. But the city, south of Bangalore, is also a good place to observe monuments to India's modern might. One of its suburbs contains a lush campus with a collection of futuristic buildings: the Global Education Centre, one of the world's largest corporate-training facilities, operated by Infosys, a leading Indian information-technology (IT) services firm.

Visiting the centre, you would think that for India's IT businesses, the sky is the limit. Rarely has an industry grown so rapidly for so long. It has boasted annual growth rates of nearly 30% in the past ten years, with revenues now nearing $50 billion, about 5.4% of India's GDP. But some in India are starting to worry that the industry is heading for a fall. At the very least, analysts say, the industry's leading firms—Tata Consultancy Services (TCS), Infosys and Wipro, to name only the three largest—need to do more to adapt their business models as the industry matures.

The “IT” in India's IT industry has always been something of a misnomer. True, most of its more than 1.6m employees sit in front of computers, writing software for Western firms, remotely maintaining their computers and electronically handling some of their operations. But the business is mostly about people and processes. The very essence of India's IT firms is their ability to marshal huge local workforces to supply high-quality services.

One of their biggest innovations has been to borrow ideas from manufacturing and apply them to services, by building a sophisticated human supply-chain, for instance. They have also focused on certification and continuous improvement—a result of having to be, at least initially, better than their Western rivals in order to win business, says Girish Paranjpe, the boss of Wipro's consulting arm. Today more Indian than American firms meet the highest internationally recognised standards for software development.

All this has enabled Indian firms to take advantage of a rare, if not unique, set of market conditions. On the demand side, Western companies needed to cut costs, but their computer systems still required a lot of human labour. On the supply side, there was an army of well trained, English-speaking engineers demanding only a fraction of a Western salary. Fast fibre-optic links brought both sides together and a favourable exchange rate made this global connection even more attractive: customers paid in dollars, and employees were paid in rupees. The result was a “low-risk, high-margin business”, says Kiran Karnik, the outgoing president of Nasscom, the industry's trade group. To increase sales, firms could hire more people without caring too much about productivity, with the result that growth in revenue correlated closely with growth in headcount.

So why the concern? Indian IT faces a host of threats, says Sudin Apte of Forrester Research, a consultancy, who argues that the industry needs to reinvent itself. The most immediate difficulty is the rapid appreciation of the rupee against the dollar in recent months (see article). Since its low in mid-2006, it has gained 16%. This has made a liability out of what had been a big asset for Indian IT firms—making most of their sales in America. The strong rupee has also thrown other structural problems into relief. These fall into three categories.

What goes up...

First come the familiar problems. One is India's clogged and insufficient infrastructure: workers in Bangalore can spend four hours a day in traffic. Then there are the tax breaks that subsidise the industry, some of which expire in 2009. There is also a growing talent shortage. Indian engineering schools award around 200,000 diplomas each year, and produce around 250,000 graduates, but only half are employable by the IT industry. Employees have learnt to switch jobs for better pay, and salaries are going up by 10-15% a year. For senior staff, they will soon reach Western levels.

Second, competitors are starting to emerge. IT industries in other parts of the world, such as Central Europe, may never match India's in size, but they can still pick off valuable contracts. Meanwhile, foreign IT firms have been beefing up their Indian subsidiaries. In 2002 the six biggest—including Accenture, IBM and HP—had fewer than 10,000 employees in total in the country. Their combined Indian workforce now exceeds 150,000. This enables them to rival the Indian firms in scale and cost, while exploiting their stronger brands and international scope.

The third category concerns future threats. In the short term a slowdown in IT spending looms as America's economy weakens. In the longer term Indian firms must keep abreast of technological changes. Many of the services they now provide will eventually be automated; this is already starting to happen, for example, in software testing. Western firms, meanwhile, increasingly want Indian providers to do more than just keep systems running; they want help in developing new solutions to business problems—something few Indian firms are set up to do.

The question is whether the industry's business model can cope with these threats even as the potential for growth in its established markets declines. According to calculations by CLSA, a French-Asian investment bank, Indian IT firms will soon have a share of nearly 20% of their addressable market's value and almost 40% of its volume. They will also struggle to make their existing business more efficient: most fat has already been cut.

Many think that Indian IT firms need to move into new, higher-margin services and to cut the link between revenues and headcount, for instance by offering more consulting, developing more intellectual property and making acquisitions abroad. To be fair, the leading firms are already doing this. Infosys now generates nearly a quarter of its revenues from consulting, says its new boss, S. Gopalakrishnan; and Wipro recently paid $600m for Infocrossing, an American firm, the largest in a series of acquisitions by Indian firms.

But is the industry moving fast enough? Nasscom's Mr Karnik says no, but he thinks there is still time to change things. Partha Iyengar of Gartner, another consultancy, sees more urgency. He expects slower growth and lower margins if the big firms are not making most of their money in consulting and other high-margin areas within three or four years. This will be hard, he says: today's focus on people, processes and profits may keep many firms from reaching the next level. But, he says, India's IT firms have shown before that they can change if they really need to.

Even if the heavyweights stumble, smaller firms are ready to take up the baton. For example, MindTree Consulting was founded 1999 in anticipation of the very threats that have now materialised. However potent these threats prove, they have already demonstrated that for all the talk of the world being flat, economic gravity still applies.

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Indian start-ups

Entrepreneurial push

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Is Bangalore another Silicon Valley in the making?

HYPE knows no borders. So it was probably inevitable that Bangalore would be branded another Silicon Valley, soon to be populated by armies of entrepreneurs and venture capitalists. Reality is more sobering, but something is afoot. More venture capital (VC) is flowing into the country—including some from American VC firms active in India—and a growing share of it is being invested in innovative early-stage firms.

Things are moving in the right direction, but this is hardly Silicon Valley. For one thing, the infrastructure for technology entrepreneurs is at "an early stage", says Surendra Jain of the Indian arm of Sequoia Capital, a Silicon Valley VC firm. The "term sheets" listing the financing conditions are the same, he says, but the courts may not interpret them in the same way. Similarly, professional networks and the collective knowledge of how things are done are still developing. This is why Helion Ventures, a local VC firm, has made a speciality of advising entrepreneurs by, say, helping them find a chief financial officer.

What is more, internet start-ups cannot just put up a clever website and hope that viral marketing will bring traffic their way. Internet penetration and broadband access, though growing, are still low. You need to be on the ground, says Kavita Iyer, the boss of Minglebox, a social-networking site whose employees are a familiar presence at college festivals. Enabling access to her site from mobile phones is also a priority, since they are more widespread than PCs.

Yet the biggest hurdle for Indian entrepreneurs may be cultural. Most people prefer a safe job at one of the big services firms, since that is what their parents and future in-laws want, says Ashish Gupta of Helion Ventures. "Our middle class is adaptive, not innovative," says Subroto Bagchi, who recently wrote a book about his experience co-founding MindTree Consulting, a start-up backed with venture capital.

These hurdles will doubtless fall once a few Indian start-ups make it big. And they are likely to be inventive in ways that Silicon Valley firms are not. The demand in India is not so much for new technologies as for new ways to make technology affordable to the masses. Such approaches are likely to fare well in other emerging economies—and could disrupt rich countries, too.

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Germany and China

Broken pottery

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A political spat with China puts German businesses on edge

EIGHT life-size terracotta warriors, thought to be from Xian, China, went on display in Hamburg on November 25th, but are now suspected of being fakes. Museum officials are investigating the latest twist in Germany's fraught relations with China, which took a nosedive after Chancellor Angela Merkel received the Dalai Lama on September 23rd.

The worries about China come as German businessmen are having a difficult time with Ms Merkel closer to home. She has attacked the excessive pay of top executives who put their companies at risk at the expense of other employees, though she stops short of proposing a legal ceiling. She has also threatened to impose a minimum wage on more industries where collective agreements are being side-stepped. German business confidence fell to a 15-year low in the latest poll carried out by ZEW, a research centre in Mannheim.

China regards official contacts with the Dalai Lama, in exile from Tibet since 1959, as a threat to the stability of the province. In late November Wen Jiabao, the Chinese prime minister, demanded an apology, which Ms Merkel shows no sign of giving. Various official visits have been cancelled, including one by Germany's finance minister, Peer Steinbrück, and apprehension is seeping into the business community.

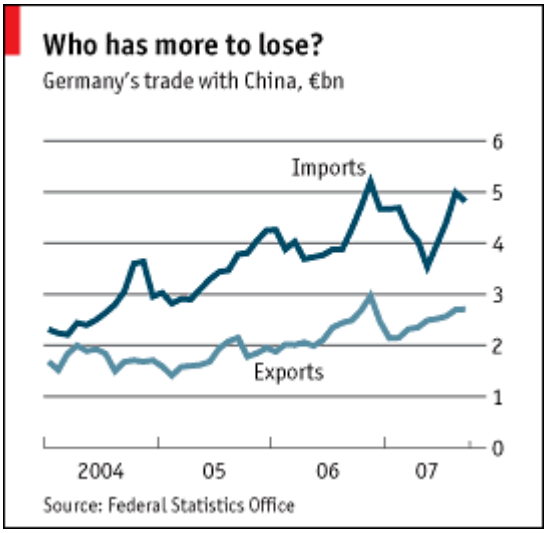
Deutsche Post recently said it had refused to print ready-franked envelopes bearing an image of the Dalai Lama—an attempt to steer clear of the political fracas. *Der Spiegel*, a weekly magazine, cancelled an exhibition at a museum in Shanghai after complaints about its content. This is small beer, but the evidence is mounting that business as well as political relations between Germany and China are going through a brief ice age. Jürgen Thumann, head of the Federation of German Industry, has urged the government to enter “constructive dialogue” with China. Other industrial leaders have dived for cover since Jürgen Hambrecht, boss of BASF, said the handling of the Dalai Lama's visit was “not very clever”. Ekkehard Schulz, head of ThyssenKrupp, an industrial giant, refused to comment on the matter on December 4th when revealing record profits, due in part to buoyant business in Asia.

There are still hopes that a visit to China by Sigmar Gabriel, the environment minister, will go ahead at the end of January as planned. A lot is at stake. China is Germany's second-biggest export customer outside Europe, and carmakers, chemical firms and makers of industrial machinery are relying on it for growth. Meanwhile the German economy benefits from cheap furniture, office equipment and sports goods from China. These flows are unlikely to be affected in the short term. And big contracts, such as those for Airbus aircraft and nuclear power-stations, in which German firms are members of international consortia, should survive unscathed. But bilateral deals are more at risk.

German projects in the pipeline in China include a €150m ($220m) tyre plant to be built by Continental in Hefei, and two joint-ventures being set up by Daimler to build vans and trucks. Siemens and ThyssenKrupp are hoping for the go-ahead to extend Transrapid, Shanghai's high-speed rail system. Many firms publicly say they are not worried, but there is “growing concern that things are getting more difficult for German business,” says Eberhard Sandschneider of the German Council on Foreign Relations. “China has a record of playing games—not having time for meetings, not signing documents and so on.”

What now? The city of Hamburg, where 400 Chinese firms are registered, hopes it can help to bring about a thaw. In 2006 it hosted an event, “China meets Europe”, which was attended by

Mr Wen and three other ministers. Preparations for a similar event scheduled for next September “could be a catalyst for better relations,” says Jens Assmann of Hamburg's Chamber of Commerce. German bosses must be hoping that their strained relations with China—and with Ms Merkel—will improve before then.



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The business of yoga

Well positioned

Dec 13th 2007 | VANCOUVER
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Lululemon, a Canadian clothing firm, rides the yoga boom

AP

Don't mention the seaweed

IF THERE is no seaweed in a T-shirt, does it still reduce stress and make your skin feel softer? That was the worry that threatened to distract North America's yoga practitioners from their routines last month. Shares in Lululemon Athletica, a Canadian firm that sells yoga clothing and equipment, fell after news reports claimed that tests had failed to find any trace of seaweed fibre in some of its garments, which were supposed to contain the stuff. Lululemon insisted that its own test results showed seaweed really was present, though it agreed (at the request of Canadian regulators) to withdraw unsubstantiated claims about its supposed therapeutic benefits.

None of this appears to have affected the devotion of Lululemon's fanatical customers, of which there are many. *Yoga Journal*, a magazine, estimated in 2005 that about 17m Americans practise yoga, spending about $3 billion a year in the process—$500m of it on clothing. “This is one of the best growth stories in retail,” says Paul Lejuez, an analyst at Credit Suisse. Lululemon, with sales of $66m in the most recent quarter, is by far the most visible brand. “If you're going to call anything a yoga pure-play, this is the one,” says Mr Lejuez.

Lululemon's share price shot up after its initial public offering in July. At its peak in October, the company was worth $4 billion. Rivals including Victoria's Secret, American Eagle and Nike have moved into yoga gear lately. But Lululemon thinks it has a winning formula. It designs its own products and sells nearly all of them through its own shops, which it styles as centres for local yoga groups, enlisting popular yoga teachers as “ambassadors”, and hosting classes and other events.

Bob Meers, the chief executive, likens Lululemon's position to that of Reebok (which he also headed) in the early 1980s. That firm capitalised on an earlier fitness fad—aerobics—to develop a global sporting-goods brand. “We are at 10% of our potential right now,” says Mr Meers. Though it affected the firm's share price for a fortnight, the seaweed brouhaha did not affect sales, he says. Among customers used to vague claims about chakras and crystals, a little seaweed seems to go a long way.

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Cadbury

Time to break off a chunk

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A renowned activist investor turns his attention to yet another food company

NELSON PELTZ is stepping up his campaign for more influence over the management of Britain's Cadbury Schweppes, the world's biggest confectionery-maker measured by sales. In mid-March the activist investor, who specialises in big food companies, revealed that he had a 3% stake, spurring Cadbury's management into disclosing its plan to demerge its American soft-drinks business. This week, in partnership with QIA, Qatar's state-owned investment fund, Mr Peltz's investment vehicle, Trian, increased its holding to 4.5%.

Cadbury Schweppes, which makes gum, sweets, chocolate, iced tea and fizzy drinks, is just recovering from a series of disasters. Todd Stitzer, who became the firm's boss in 2003, had to preside over several profit warnings, an accounting scandal at the firm's Nigerian division, the botched launch of a computer system and two product recalls. All this happened on Mr Stitzer's watch, though it was not all necessarily his fault. “He was a bit like Gordon Brown,” says Julian Lakin, an analyst at Mirabaud Securities, a stockbroker.

On December 11th Mr Stitzer finally had some good news for investors: confectionery-sales growth this year, he said, would be above his goal of 4-6%. Britain's rotten summer boosted sales of sweets. A television advertisement featuring a man in a gorilla suit playing the drums became a surprise hit on the internet. The demerger of the drinks unit, which will be listed on the New York Stock Exchange in the first half of 2008 under the name Dr Pepper Snapple, is on track.

Even so, the margins at Cadbury Schweppes's confectionery and beverage businesses are still lower than those at Nestlé, Kraft and Wrigley, its three big rivals in confectionery, or Coca-Cola and Pepsi, the biggest makers of fizzy drinks. Having cut costs by closing 33 factories and pruning over 10% of the staff, Mr Stitzer announced plans in June for a further 15% reduction in both factories and headcount. His aim is to increase margins in the confectionery business to the mid-teens by 2011, from around 10% today. But this might not be fast enough for the impatient Mr Peltz, who is likely to demand a seat for one of his allies on Cadbury's board, as he has done at Heinz, another of his targets.

Simon Marshall-Lockyer, an analyst at Bear Stearns, an investment bank, reckons Mr Peltz might also push Cadbury to bid for Kraft's confectionery unit. Mr Peltz holds 3% of Kraft, which owns Côte d'Or, Mirabell, Suchard and Toblerone, four posh European chocolate brands that would be a good addition to Cadbury's mass-market brands. Mr Peltz might also campaign for a revival of talks with Hershey, America's biggest chocolate-maker. The two are a near-perfect fit, but Hershey cannot afford to buy Cadbury, and Cadbury cannot buy Hershey without the approval of the trust that controls the firm.

Another possibility is that having recently abandoned a bid for J. Sainsbury, a British supermarket chain, the QIA might now want to buy Cadbury instead. A bid for its confectionery business alone would have to be close to the £10.6 billion ($21.6 billion) the QIA was ready to spend on Sainsbury. Its money and Mr Peltz's expertise could make a formidable combination. But Mr Peltz tends to buy chunks of companies rather than entire firms, and one of the QIA's reasons for abandoning the Sainsbury bid was the credit crisis, which shows no signs of ending. Once it does, private-equity firms, several of which are interested in Cadbury's soft-drinks business, will be on the prowl again. Next year will probably be a bit easier for Mr Stitzer—but it will not be dull.

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Mobile phones on planes

Your call

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Passengers are being asked for their views on the in-flight use of phones

LIKE many flights, the use of mobile phones on aircraft has been subject to unexpected delays. But some passengers, at least, are now sending text messages and e-mails, and soon an Air France plane will go further. Once it has reached its cruising altitude, its “fasten seatbelt” sign will be switched off—and so will a new “no phones” light alongside it. Passengers will then be able to switch on their handsets and make and receive calls.

Airlines are unsure what passengers will make of this. Surveys have found that many people are vehemently against the idea, but others say they would welcome the opportunity to text, access the internet or make calls. So airlines plan to test the market before deciding how and when to allow phones to be used in the air.

This week JetBlue, a low-cost carrier based in New York, launched a free but limited Wi-Fi data service on one of its Airbus A320 aircraft, in partnership with Yahoo!, an internet giant, and Research in Motion, the maker of the BlackBerry. Passengers using Wi-Fi-enabled laptops can use Yahoo!'s mail and instant-messaging services; those with Wi-Fi-capable BlackBerrys can get their e-mail. (The system uses a national network of special ground stations to provide connectivity.) There is no support for voice calls, following the Federal Communications Commission's decision in March that the in-flight use of mobile phones would not be permitted.

But in other parts of the world, voice calling will be allowed. Air France's test will begin on an Airbus A318 in the next few weeks. Rather than Wi-Fi, it relies on a tiny mobile-phone base-station installed on the plane. At first it will allow only mobile-data access and text messaging, but after three months the voice service will be switched on, too. “We will give a questionnaire to every passenger to see what they think before we make a decision to equip more aircraft,” says Marina Tymen of Air France. “If people say they want data but no calls, that will not be a problem.”

Data could prove to be popular because it is less intrusive than voice calls. Qantas, Australia's flag carrier, has quietly been trying out a data-only service on one of its Boeing 767s. Since it was installed in April, some 19,000 passengers have used mobile devices for texting and e-mails, says AeroMobile, the British firm that supplied the system. More airlines will join in during 2008. AeroMobile is fitting out an Emirates aircraft for data and voice. Ryanair's aircraft are being kitted out by OnAir, a rival technology provider that supplied the Air France system and is backed by Airbus. As Europe's pushiest low-cost carrier, Ryanair thinks passengers on its short, busy flights will not mind texting and calls, because the money it raises will help keep fares low (callers will be billed at international roaming rates, with airlines taking a cut). It plans to equip all 150 of its aircraft.

Passengers will still have to keep their phones switched off during take-off and landing. This is to reduce the risk of interference with aircraft instruments—though the main reason why the use of mobiles has hitherto been banned on aircraft is, in fact, to avoid disruption of networks on the ground as lots of handsets pass overhead at high speed. New systems get around this problem by blocking out ground-based signals within the aircraft, so that phones connect to the on-board “picocell” instead. This is then linked by satellite to ground-based networks.

Satellite links have the advantage that they will work even over oceans. The equipment is also much lighter and cheaper than an elaborate earlier generation of satellite technology, which provided Wi-Fi access on some aircraft, but was never widely adopted. Now that the technology works, it is up to passengers and airlines to decide the rules governing its use. Will data prove most popular, with voice access limited to short-haul flights and brief periods at the start and end of long-haul flights? You make the call.

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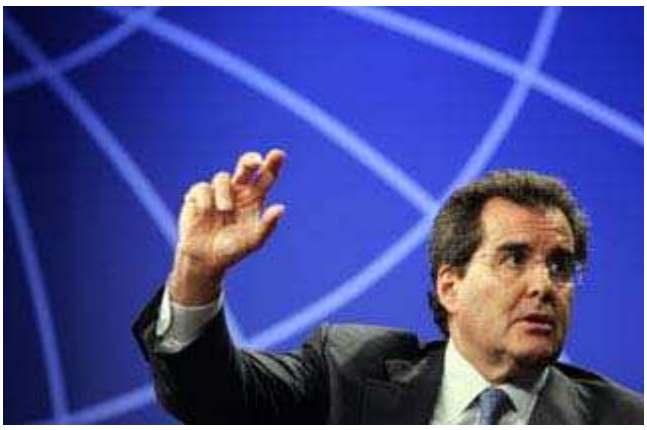
Face value

Not the heir, apparently

Dec 13th 2007
From The Economist print edition

Peter Chernin, number two at News Corporation, holds the key to a smooth Murdoch family succession

Reuters



ALL eyes in the media industry this week were turned on Rupert Murdoch's youngest son, James, who was appointed on December 7th as News Corporation's chairman and chief executive for Europe and Asia. At 34, James is now well on his way to the top job at the world's third-biggest media company. No one spared much of a thought for Peter Chernin, News Corporation's chief operating officer, who runs the firm from day to day—after all, he is a mere employee, not a Murdoch.

Investors, however, know how important Mr Chernin is to News Corporation. They want him to stick around for several more years while James gains more experience. But insiders say that James's new role, together with other changes at News Corp, mean that Mr Chernin may not stay beyond June 2009, when his five-year contract ends. That in turn could make it harder to pull off the elder Mr Murdoch's plan for James to succeed him as chief executive.

Most successful family-owned firms have able professional managers working alongside the dynasty. But Mr Chernin has become more than that in the 18 years he has worked at News Corp. As well as overseeing the company, he runs the content businesses—film and television—which sit at its heart. He is known in the media industry for his financial acumen and creative flair. At Twentieth Century Fox, the film studio, Mr Chernin makes notes on scripts and has final say on “greenlighting” big-budget films. Back in 1997 he oversaw a project that went way over budget and seemed doomed to be a disaster—but “Titanic” went on to become the biggest-earning film in history. Under his leadership, the studio has become the most consistent producer of hits in Hollywood—an achievement members of the Murdoch family are quick to acknowledge. According to Global Media Intelligence, a research firm, Twentieth Century Fox had an operating-profit margin in 2006 of 17%, far higher than those at its rivals. Mr Chernin is now leading a group of media bosses as they try to resolve the Hollywood writers' strike. “He's the closest thing there is to a leader across the whole entertainment industry,” says a Los Angeles media executive.

Some people think Mr Chernin may deserve still more credit for News Corp's success. “You sometimes wonder, who is the organisational genius: is it Rupert, or is it Peter?” muses one of the firm's shareholders. Mr Murdoch was celebrated for embracing the internet when he bought MySpace, a social-networking website, in 2005. But Mr Chernin has been closely involved in its purchase and operation, his supporters say. Shareholders have long seen him as a source of stability at the company. “We and investors have always expected a younger Murdoch to rise to the top of News Corporation,” says Richard Greenfield of Pali Capital, an independent research firm in New York. “But we certainly hope that process does not displace Peter Chernin.”

Mr Chernin played a part in planning James's new job, of course. But as James's power grows, Mr Chernin's inevitably diminishes. Mr Murdoch's purchase of Dow Jones, which owns the *Wall Street Journal*, also changes things. Some analysts reckon that Mr Chernin may not have agreed with the high price paid for Dow Jones (a 65% premium above its share price before the bid became public). He is not likely to have much say over the new acquisition, which Mr Murdoch had long coveted. At the same time as moving James, Mr Murdoch appointed another loyal lieutenant, Les Hinton, as chief executive of Dow Jones; and Robert Thomson, editor of the *Times*, will quit London to become the company's new publisher.

If Mr Chernin leaves in 2009, Mr Murdoch could find himself in an awkward situation. James has shown great promise as an executive, most recently at BSkyB, a British satellite-TV firm controlled by News Corp. But investors note that BskyB's share price is slightly lower now than when he took over. Moreover, BSkyB mostly distributes other people's programming—it does not make much of its own, and a large part of its success depends on technology and customer service. That makes it a relatively straightforward business to run in comparison with films and television, which involve dealing with talent and making big creative bets every week. James will gain new skills running News Corp's British newspapers. But taking charge of News Corp's film studio and cable channels would be a bigger task.

Success and succession

Mr Murdoch may nevertheless try to bring James to America to fill Mr Chernin's job, or something close to it, in 2009. But he would be mindful of what happened to his eldest son, Lachlan, at headquarters in New York—he abruptly left the firm in 2005 after reportedly falling out with his father and other senior executives. Another option would be to look outside the firm to fill Mr Chernin's shoes, though it might be difficult to find someone with sufficient clout and experience who would be willing to take the job. To have the best chance of securing his dynastic succession, says a banker who knows the company well, Mr Murdoch needs Mr Chernin to stay for at least another three years and to show James the ropes in America.

In the past Mr Chernin has been able to win huge pay deals because Mr Murdoch needs him so much—which has not endeared him to the clan. No doubt some outlandish sum would secure his services beyond 2009. Mr Chernin would certainly have no trouble finding work elsewhere. Sumner Redstone, owner of Viacom and CBS Corporation, might snap him up, as might NBC Universal. Mr Chernin has outside interests in politics, where he is helping Hillary Clinton's presidential campaign, and in philanthropy, where he co-chairs an organisation called Malaria No More. He also sits on the board of American Express. Mr Chernin still wields power over Mr Murdoch behind the scenes, but his star at News Corp is now in decline.

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Corporate restructuring

The walking dead

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Illustration by Bill Butcher

With credit conditions tighter, more companies will be pursued by their creditors. But restructuring is becoming increasingly complex, contentious and costly

MENTION the name Schefenacker to the London bankers, lawyers and advisers who specialise in turning around insolvent companies, and you are likely to be greeted with knowing smiles. Schefenacker, which makes mirrors for carmakers such as BMW and Mercedes, almost went bust late last year. In April it emerged from a tortuous restructuring, during which it moved its headquarters from Germany to Britain to take advantage of the flexible insolvency laws there. Along the way, its debt burden was cut by 47% and its founder had to give up three-quarters of his shares to creditors.

These things happen in business. But the reason for the gleam in the eyes of the London specialists is Schefenacker's bill for legal and advisory work: well over €40m ($59m). Compared with the £121m ($242m) that British Energy paid between 2003 and 2005 to its advisers when it got into trouble, this might seem small change. But Schefenacker, with total debts of €429m, was a tiddler next to British Energy. The nuclear-power company's restructuring involved £16.2 billion-worth of liabilities (£1.2 billion of debt and £15 billion for storing, reprocessing and disposing of spent nuclear fuel and for decommissioning power stations).

Expect more Schefenackers, courtesy of the credit crunch. As America's subprime-mortgage crisis has taken hold, credit conditions have suddenly tightened. In addition, rich economies look set to slow down—perhaps uncomfortably abruptly. The rate of corporate bankruptcies therefore looks sure to rise; and to stave off insolvency, many companies will have to reach agreement with their creditors on a restructuring of their debts.

Since mid-September an index of the cost of protection against defaults by low-rated American companies has soared (see chart 1). Moody's, a rating agency, predicts that the proportion of low-rated companies that default on their borrowing will rise from 1% to 4.2% within a year. And BDO Stoy Hayward, an accounting firm, thinks that in 2008 the number of British businesses becoming insolvent will go up by 9%, to a five-year high.

However, not all firms that go bust will be as lucky as Schefenacker, which at least kept its business more or less intact. Many firms undergoing restructuring could end up like corporate zombies, unable either to revive or to die while their creditors haggle over what should be done.

Changes to bankruptcy laws in both America and Europe in recent years ought to have made it easier to revitalise or kill off ailing companies. But companies' finances have become much harder to unravel. Offered cheap money on easy terms, companies—just like consumers and homeowners—have borrowed far more than they used to. The type and complexity of debt have grown too, as have the range and number of creditors.

All this has increased the potential for conflict when a company becomes insolvent. A high level of debt, relative to a company's assets, means that a good proportion of creditors will be left with nothing. Because any restructuring plan has to be approved by a majority of creditors, the ability of a group of lenders to hold out for a better deal has grown. Some institutions will have taken bets that a company will go bust, and so stand to make money if a restructuring fails. This sets the stage for long, fierce battles between different classes of creditor.

The best bankruptcy

Chapter 11 of America's bankruptcy code is widely regarded as the global gold standard for bankruptcy law. It protects a company from its creditors and allows its managers to stay in control until they can come up with a plan to reorganise the business (in contrast to Chapter 7, which deals with liquidating companies outright and selling their assets to repay lenders). After a Chapter 11 filing, a firm can continue borrowing money to keep going. Suppliers or customers cannot terminate contracts with it simply because of the filing. “Corporate bankruptcy in America has now lost any stigma it might have once had,” says David Heller, a Chicago-based partner in Latham & Watkins, a law firm.

Since its introduction in 1978, the law (and the bankruptcy code in general) has spawned a huge industry of lawyers, advisers and even trade journals. Creditors argued that it was too soft on managers, pointing out that executives could take years to draw up a reorganisation plan while creditors could not put forward plans of their own. Inefficient companies could gain a substantial advantage in Chapter 11, because they could continue in business without having to service their debts. A classic example is the American airline industry: in 2005 four of the six big carriers were operating under Chapter 11.

Changes made in 2005 were intended to speed up reorganisation by in effect handing more power to creditors. Companies now have only 18 months to file a restructuring plan of their own, and the process of bankruptcy has become more expensive. Bosses also have less scope to award themselves large pay rises during bankruptcy.

If Chapter 11 has been thought of as too lenient, insolvency law in Europe has been notoriously severe. Companies with only short-term cash problems often ended up being liquidated. Directors were required by law in some countries to file for insolvency mere weeks after their companies became unable to pay their debts.

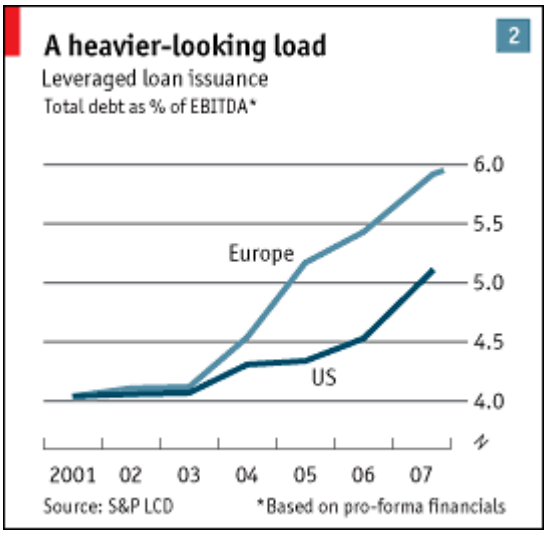
Some countries (Germany in 1999; France and Italy in 2005) have since introduced Chapter 11-style reforms. A European Union law introduced in 2002 has in effect made it easier for creditors and firms to seek insolvency in countries other than a company's official home.

Often, as with Schefenacker, this has meant Britain. British insolvency law has long been supportive of creditors whose debts are secured by companies' assets. Amendments in 2002, intended to give all creditors (not just secured ones) a fair hearing, have made little difference. One reason is simply that insolvent companies still need money to function; usually, they can borrow only from secured creditors, who will inevitably dictate the terms of such loans. The lack of separate sources of finance for insolvent firms remains a weakness of the system in continental Europe too. In America firms in Chapter 11 can borrow far more easily.

Chancery

All these legal changes could be rendered meaningless by the financial excesses of the past few years. As central banks around the world cut interest rates in the aftermath of the dotcom collapse and flooded the world with cheap money, companies found lenders queuing to offer them loans at very low interest rates. They were delighted to accept—and to play off one lender against another to get the easiest terms and lowest rates.

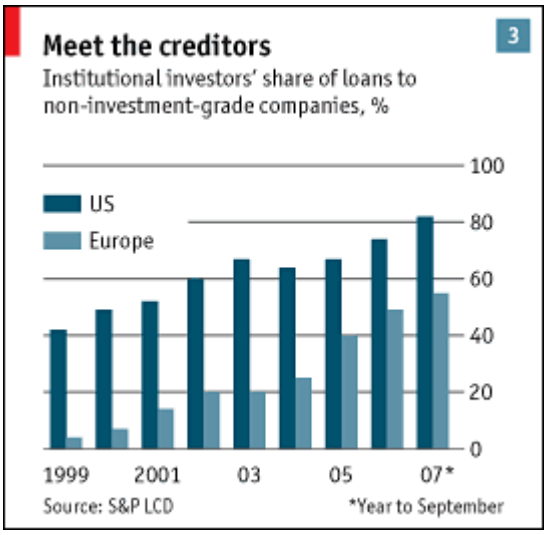
Not surprisingly, debt levels rose sharply in both America and Europe. According to Standard & Poor's Leveraged Commentary & Data (S&P LCD), a research unit that tracks lending to low-grade companies, the total debt issued by American companies of that class as a share of their gross earnings rose from 4% in 2001 to 5.1% in the first nine months of this year. In Europe the ratio increased from 4% to 5.9% in the same period (see chart 2).



The character of lenders has changed too. Until the late 1990s the biggest creditors, especially in Europe, were banks, which had first claim on a defaulter's assets. The others were usually bondholders, who had to be satisfied with what was left after the banks had been paid.

With the enormous expansion in the number of institutional investors (those other than banks, such as hedge funds), all that has changed. Even when banks made loans, they tended to repackage them and sell them, as bonds, to institutions, freeing up scarce capital. According to S&P LCD, in America the share of non-investment-grade loans held by institutional investors rose by 40 percentage points to 82% between 1999 and the year to September 2007. In Europe that share climbed from 4% to 55% (see chart 3).

Even smallish companies can now have dozens of debt holders. Several years ago, says Bob Hedger, of the Royal Bank of Scotland's restructuring department, the investors in any single deal used to be recognisable or small enough in number that he would know exactly whom to call in the relevant bank or fund. “When I look at the number of hedge funds who have entered the distressed market for debt in the past few years and now regularly hold the debt of distressed companies, many of the names are completely unfamiliar.”



With the new investors has come a bewildering variety of loans. Instead of a short chain—secured creditors, unsecured creditors and shareholders—now there are senior or first-lien creditors (who have first dibs on a company's assets), second-lien creditors (who also have claims over the assets of a company, but who get paid only after first-lien creditors), mezzanine creditors, senior subordinated debt holders and subordinated debt holders. At the bottom of this caste system, as before, are the shareholders, who get any leftovers.

In the years of easy, plentiful credit, companies were able to demand looser conditions on their loans. Such conditions, known as covenants, typically specify limits on certain financial ratios, such as that of a company's earnings to its interest payments. If they are breached, creditors can force the company to fix its finances. Recently covenants have become so weak as to be ineffective. “There is a real risk that a company will default on payment obligations before it actually breaches its covenants,” according to Ian Field, a partner of Allen & Overy, a law firm, in London.

When the main “sponsor” or the biggest shareholder happens to be a private-equity fund, the terms of a loan sometimes allow the fund to repair breaches in a covenant by putting more money into the company. More often than not, however, this merely delays the inevitable. “When the company finally comes to the table [to implement a restructuring], the level of financial distress is likely to be more severe and there will be less time to implement a successful restructuring,” says Mr Field. Even in America financing for bankrupt companies may become more difficult to obtain, simply because companies are laden with so much debt. Lenders might well avoid companies with few assets not already mortgaged to others.

Games people play

Diverse though they may be, almost all investors in a restructuring are of just two types. Many hedge funds are pure traders who buy debt cheaply and try to sell it as the price inches up, looking to make a quick buck. But there are often larger investors whose ultimate aim is to convert their debt to equity. These used to be mainly “vulture” funds, but now include a wide range of hedge funds and even specialised distressed-debt traders in large investment banks. When a company revives and its share price starts rising, such investors can sell their holdings for a handsome profit.

The problem for other investors round the table is in telling which is which. To compound the problem, as news of a company's troubles spreads, the price of its bonds tends to jump because investors are trading in and out of them. “When I notice a fund buying up the debt of a company for 93 cents on the dollar I can be pretty sure that they want to convert their debt to equity at some point in the future,” says a banker. “It rarely makes sense to buy at that high a price for them to be satisfied with being paid off only at par [the full value of the bond].” So when talks start, several of those at the table probably want to end up owning some or all of the firm.

That is when the games begin. In both Europe and America insolvencies are increasingly “pre-packaged”: creditors agree on a plan of restructuring before a formal insolvency. This can speed matters along. “Secondary investors, such as hedge funds, usually prefer a consensual out-of-court restructuring but will also have a ‘Plan B' if this cannot be achieved. Some form of pre-packaged insolvency has become increasingly popular as a Plan B over the last year or so,” says John Houghton, a partner at Latham & Watkins in London. In a “prepack” creditors have more control over the final outcome and run less risk of a fire sale of assets.

However, prepacks are quick only if creditors can agree on them. The creditors who will be paid only part of what they are owed are the most important in any deal because they can hold out for more. Those lower down, who stand to get nothing, can be forced to accept a restructuring plan. But it may be hard even to work out what the company is worth—and that is what determines which creditors get paid.

In December 2006, a couple of months after Schefenacker began its restructuring journey, another car-parts company had ended its own, even longer insolvency adventure. Meridian Automotive System, a Michigan-based company with 4,700 employees, had filed for protection from its creditors under Chapter 11 in early 2005. As well as issuing unsecured bonds, Meridian had borrowed around $485m in first- and second-lien loans.

For a restructuring deal to go through, it has to be approved by a majority (defined differently in different countries) of each “class” of creditor. Some of Meridian's biggest creditors were hedge funds which held a lot of first- and second-lien debt and in effect had a blocking vote in both classes. Contentious negotiations ensued over, among other things, the financing of the company through bankruptcy. In the end, a deal was struck which essentially handed more to second-lien lenders than they might otherwise have been entitled to. The entire bankruptcy took 20 months.

Meridian is hardly unique. As David Resnick, an investment banker with Rothschild in New York, points out: “Many hedge funds now invest 'strategically', often buying up large chunks of different parts of a company's capital structure, so as to be well positioned when that company needs to restructure or files for bankruptcy.” To complicate matters even more, some creditors, having bought insurance against default, may make more if the restructuring fails than if it succeeds. Since the debt of such companies is easily traded, those around the table can often change, even as a plan is being debated.

When a deal cannot be struck, creditors may simply attempt to snatch control of the company. This happened in the battle over a European consumer-goods company earlier this year, according to a lawyer who knows the case. When the company ran into trouble, talks broke down between the hedge funds that owned a lot of its debt and the big private-equity firm that owned its shares, which refused to buy out the lenders. The hedge funds threatened to use the courts to take control of the firm's assets and sell them to a shell company wholly owned by them, leaving the private-equity firm with nothing. The private-equity firm retaliated by warning investment banks that they would be blacklisted if they funded the creditors. Faced with the risk of losing the company (an American bank was willing to take the risk), the private-equity firm agreed to a buy-out of creditors anyway. This drama took nine months.

Disagreements among creditors can be costlier still. Talks among creditors of American Remanufacturers, a third car-parts firm, broke down when second-lien lenders claimed that first-lien lenders could not

finance the company through bankruptcy without their permission. The court agreed with them. Since the price for such permission would almost certainly have been equal treatment of both classes, the first-lien lot walked away, leaving the company with no money. It was shut down and its assets were sold. Neither set of lenders was paid more than a pittance.

The demise of American Remanufacturers was swift. Just 11 days after its Chapter 11 filing, it became clear that the company would have to be liquidated. But this example, like that of the European consumer-goods company, illustrates both the tactics creditors use and the consequences when they misfire. In an analysis for the American Bankruptcy Institute, Mark Berman of Nixon Peabody, a law firm, remarks: “An observer has opined that the first- and second lien-holders took out their guns and shot each other. From any perspective, it is hard to understand who won or who benefited by the result achieved in this case.”

Amid all the threats and tactics, the health of the company is often forgotten. “With so many parties, a lot of time goes in just managing differences and arguing over how to cut the cake rather than figuring out how to increase the size of it,” says Stephen Taylor, of AlixPartners, a restructuring firm, who managed Schefenacker through its bankruptcy.

The big restructurings of a few years ago—WorldCom and Eurotunnel, for instance—tended to be those of companies with billions of dollars in debt and assets. Only rarely did businesses of Schefenacker's or Meridian's size have to endure long insolvencies. Many such firms cannot afford to. They may end up among the walking dead.

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Central banks

A dirty job, but someone has to do it

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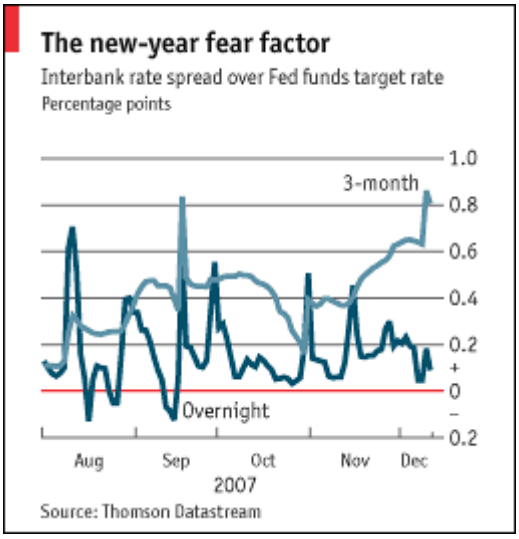
Illustration by Satoshi Kambayashi

In concert, central bankers try showering cash on the credit crisis

CENTRAL bankers are supposed to be boring and predictable. But on December 12th the rich world's monetary authorities stunned financial markets with a dramatic, joint plan to ease the liquidity squeeze in global money markets. America's Federal Reserve, the Bank of England, the European Central Bank (ECB), the Bank of Canada and the Swiss National Bank all pitched in. The central banks of Sweden and Japan said they, too, were watching developments and would act as necessary. All told, it was an impressive show of central-bank co-ordination.

Financial markets have been seizing up for weeks. The spreads between the federal funds rate and the prices charged by banks to borrow from each other have widened dramatically since early November (see chart). By some measures, the financial system is more blocked than it was in September. And it has long been clear that central banks' attempts to sort out the mess were failing. The Fed's discount window, for instance, through which it lends direct to banks, has barely been approached, despite the soaring spreads in the interbank market.

The quarter-point cuts in its federal funds rate and discount rate on December 11th were followed by a steep sell-off in the stockmarket. This was only partially reversed the next day after the central-bank effort. On December 12th the crucial interbank market did reflect more confidence, however. The three-month lending rate in dollars fell more than a quarter of a percentage point.



The central banks have pinched each others' best ideas for how best to ensure that liquidity gets where it is needed. And they have also, in effect, acknowledged the international nature of the liquidity squeeze, by promising to provide reciprocal currency-swap lines.

The Fed made the most dramatic changes. It introduced a “term-auction facility” through which all banks eligible to borrow from the discount window could bid for one-month money. The first

two auctions are to be held on December 17th and 20th, with $20 billion to be sold at each. Two more are to follow in January. The Fed also announced temporary swap lines with the ECB and the Swiss National Bank, worth $24 billion, allowing those banks to lend dollars to banks pledging euros or other currencies.

The Bank of England promised to inject more money into the markets, increasing its two forthcoming term auctions, on December 18th and January 15th, from £2.85 billion ($5.8 billion) to £11.35 billion each time. In all, £20 billion will be supplied at three-month maturities, where strains have once again become particularly acute. And unlike its previous emergency auctions, in late September and October, the price of these funds will be determined by market demand at the auction, not set at the penalty rate that deterred any bank from bidding for the money.

The hope is that by extending the maturity of central-bank money, broadening the range of collateral against which banks can borrow and shifting from direct lending to an auction, the central bankers will bring down spreads in the one- and three-month money markets. There will be no net addition of liquidity. What the central bankers add at longer-term maturities, they will take out in the overnight market.

In some ways, the announcement is a triumph for the ECB. Both the Fed and the Bank of England have shifted away from the familiar tools of a lender-of-last resort—providing funds freely to institutions at a penalty rate. They have moved closer to the ECB's approach of auctioning funds to a broader set of actors against a wider range of collateral—in effect becoming a market of last resort. The shift makes sense: in both Britain and America it was increasingly clear that the stigma associated with approaching the central bank directly was deterring deserving borrowers. Bagehot's dictum needed updating when the crisis of confidence affected entire markets rather than single banks.

But there are risks. The first is that, for all the fanfare, the central banks' plan will make little difference. After all, it does nothing to remove the fundamental reason why investors are worried about lending to banks. This is the uncertainty about potential losses from subprime mortgages and the products based on them, and—given that uncertainty—the banks' own desire to hoard capital against the chance that they will have to strengthen their balance sheets. Nor is the shift from direct lending to auction sure to work: for all the praise heaped upon the ECB, the spread between the ECB's repo rate and euro-denominated interbank rates is no less worrying than that in America or Britain.

Furthermore, central banks will now be more intricately involved in the unwinding of the credit mess. Since more banks have access to the liquidity auction, the central banks are implicitly subsidising weaker banks relative to stronger ones. By broadening the range of acceptable collateral, the central banks are taking more risks onto their balance sheets.

Set against the dangers of all-out financial seizure, these risks seem worth taking. More important, if they succeed in even modestly loosening the money markets, they will reduce the pressure on central banks to use the broader tool of lower policy rates. Across the developed world monetary policy is becoming increasingly hard to steer. Growth is slowing, because of the fall-out from the financial turmoil and the weakening American economy. In its recent Economic Outlook the OECD revised down expectations for 2008 growth in virtually every country. Yet strong growth in emerging economies is stoking commodity-price inflation. Even if financial markets were functioning normally, central bankers would face hard choices. With the system gummed up, that calculus is harder still.

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International banks

Under intensive care

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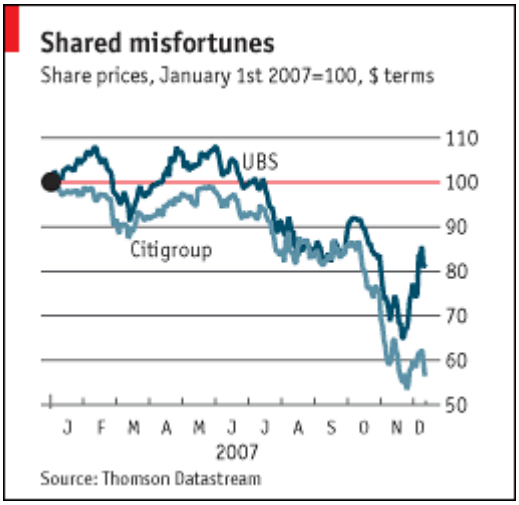
UBS and Citigroup take steps to reassure investors. But big questions remain



SURGERY, as any doctor knows, is just one step on the road to recovery. Two of the biggest banking casualties of the carnage in America's mortgage market are out of the operating theatre—though not by any means in the clear. On December 11th, after five leaderless weeks, America's Citigroup announced that Vikram Pandit, the head of its investment-banking division, would be its new chief executive. The previous day Switzerland's UBS had unveiled write-downs and capital injections designed to reassure investors that the worst of the subprime crisis was over. But the long-term prognosis on these two huge banks remains decidedly uncertain.

UBS looks the healthier. Its announcement of a $10 billion write-down on its exposure to subprime-infected debt, to go with a third-quarter hit of $3.6 billion, hardly sounds like good news. UBS now expects a loss for the fourth quarter, which ends this month. It may end up in the red for the entire year. But in today's topsy-turvy market, the bank's decision to take a much more conservative view of the value of its assets was welcomed as a sign that further big mark-downs are less likely.

What is more, UBS strengthened its tier-one capital, an important measure of bank solidity, by SFr19.4 billion ($17.1 billion). Most of that money will come from sovereign-wealth funds, the white knights of choice for today's bank in distress. Singapore's GIC, which manages the city-state's foreign reserves, has pledged to buy SFr11 billion of bonds convertible into shares in UBS; an unnamed Middle Eastern investor will put in a further SFr2 billion. UBS will also raise money by selling treasury shares, and will save cash by issuing its 2007 dividend in the form of shares. Its capital ratio is expected to exceed 12% in the fourth quarter, a strong position.

Citi is following a similar course to UBS but it has more to do. It too has admitted that it might make huge losses, but further bad news is likely. Its estimate of an $8 billion-11 billion fourth-quarter hit on its collateralised-debt obligations was made in early November, since when the market value of subprime-related debt has declined further. It too has attracted money from a sovereign-wealth fund (last month's $7.5 billion investment by the Abu Dhabi Investment Authority) but its capital ratio remains under scrutiny given its exposure, not just to subprime-related investments but also to off-balance-sheet vehicles and to a wider deterioration in consumer credit.

Citi has mimicked UBS in cleaning out the management suite, but the search to find a successor to Chuck Prince, who was ousted as chairman and chief executive last month, revealed both a dearth of suitable candidates inside the bank and a lack of interested ones outside it. Doubts circulate about Mr Pandit's credentials for the role, despite his distinguished career in investment banking at Morgan Stanley, a spell running his own hedge fund and a reputation for cerebral calm. He joined Citi only in April, snipe the critics; this is his first time in the boss's chair at a listed company; and he has scant experience of consumer banking, which accounts for half of Citi's earnings.

For Mr Pandit and Marcel Rohner, his counterpart at UBS, the priority is to stabilise their banks. But each of them must then answer two, more fundamental questions. The first is what went wrong with their approach to risk management. Both banks wound up with larger exposures to toxic instruments than their rivals did; shareholders want to know why. (The line from UBS's top brass that, like hooliganism, the problems were down to a small number of people in one part of the company, does not wash: according to Simon Adamson of CreditSights, a research firm, the Swiss bank has long had a greater appetite for risk than its peers.)

The second question is whether the banks' business models need to change in light of the credit crunch. Mr Rohner stands by UBS's approach of combining an investment-banking arm with its booming wealth-management franchise, but there are clearly tensions between the needs of risk-averse private-banking clients and the volatile profitability of an investment bank. Mr Rohner promises to shrink the bank's balance sheet and to reduce the amount of proprietary trading it undertakes, as well as to tighten risk controls.

Mr Pandit has even thornier problems to resolve. Doubts about Citi's sprawling business model and disparate internal cultures predated the credit crunch: the bank's shares performed anaemically throughout Mr Prince's tenure. But diversification seems to have multiplied Citi's woes. Given the continuing questions about its capital base, the case for a break-up looks stronger than it did—although size has its own benefits, not least making institutions too big to fail. Mr Pandit, true to his reputation, is not going to rush any decisions. But sooner or later, more surgery looks inevitable.

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Buttonwood

This year's model

Dec 13th 2007
From The Economist print edition

Looking for growth stocks when there is not much growth

THE catwalks of Paris are not the only places where fashion is on display. It works in investment too. And this year has seen as dramatic a shift as that 25 years ago when hot pants and disco suits gave way to big hair and padded shoulders.

Growth stocks are the new retro chic. Having dominated the financial markets in the late 1990s, the growth style of investment has fallen mightily out of vogue since the collapse of the dotcom bubble.

But this year, according to Wisdom Tree, an investment firm, growth stocks have beaten their “value” counterparts by 12 percentage points among large American stocks, 16 points among smaller companies and by ten points on international (non-American) markets.

Not everyone accepts that the world of investing should be divided into growth and value and it is certainly a simplistic classification. But, broadly speaking, the growth school concentrates on businesses with outstanding prospects, and worries less about the price it pays for shares. In contrast, the value school takes the price it pays very seriously, and worries less about the prospects of the business.

Why has the change occurred? In part, it is because stockmarkets are naturally inclined to overreaction. Back in 1999 and 2000 everybody wanted to buy shares in the hottest companies, and were willing to pay the equivalent of 100 years' profits for them, or indeed to buy shares in companies with no immediate prospect of profits at all. That made the value shares look very cheap by comparison and created the conditions for an extended period of catching up.

By the end of 2006 there was a much narrower range of valuations in the market. In other words, investors had to pay less of a premium to buy companies with growing profits. Growth had become cheap by historical standards.

A change in economic outlook has also prompted the switch. From 2002 onwards, output recovered swiftly from the dotcom setback and American profits in percentage terms grew at double digits. Almost every company was doing well; there was no need to pay a high price for growth stocks. But the American economy slowed in 2007 and the outlook for 2008 is gloomy. Profits of S&P 500 companies actually fell in the third quarter.

That has prompted investors to opt for companies where the profits outlook is both robust and reliable. As Brian Belski, a sector strategist at Merrill Lynch, says, “When growth is scarce, it becomes more valuable.” Given the stronger economic performance of the developing world than the developed, investors have naturally favoured larger, international stocks. That change in trend was reinforced by the slowdown in takeover activity, which had tended to be focused on small and medium-sized companies. As of December 7th, the Dow Jones Industrial Average of 30 big American firms had risen 9.3% on the year, whereas the broader Russell 2000 index was down 0.3%.

This market background is proving to be difficult for the fund-management industry. Active managers—those who try to outperform the market—tend to do best when smaller stocks and value bets are thriving. They are more likely to find bargains among the small-cap stocks that are less well researched than the likes of Microsoft or Exxon Mobil.

Paul Lavin of WestLB Mellon Asset Management has found a close correlation between the performance of hedge funds investing in shares and the breadth of the stockmarket. When most stocks are rising (which means smaller companies are doing well), the hedge funds outperform, but they suffer when small stocks start to fall. The poor performance of value stocks seems also to have been behind the problems of the “quant” (computer-driven) hedge-fund managers in August and November.

Those funds that invest on the basis of dividend income have also suffered badly. Alex Stewart, a strategist at Dresdner Kleinwort, says 2007 has been an *annus horribilis* for income investing. Such investors have traditionally shunned mining stocks, but by late November the European mining sector was up 30% on the year. Meanwhile, banking, a popular income sector, was down 20% over the same period.

These kinds of sector moves can ruin a fund manager's reputation. The long trend in favour of value made lots of managers look smart, when they may really just have been lucky. But changing the investment approach may simply look like intellectual inconsistency. So if the growth trend continues for much longer, fund managers may be damned either way; follow fashion and lose credibility or stay on course and underperform the market.

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African financial markets

On safari

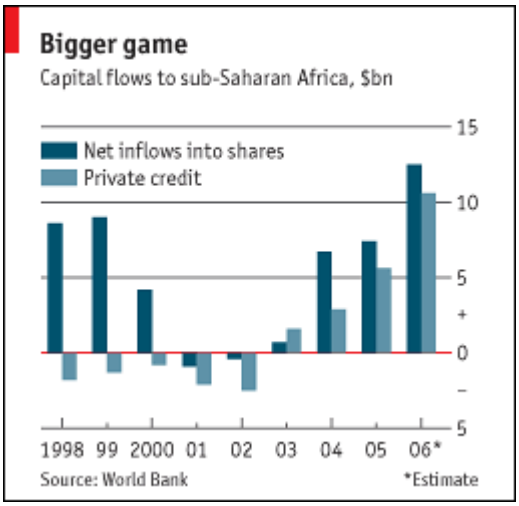
Dec 13th 2007 | JOHANNESBURG
From The Economist print edition

Sub-Saharan Africa is becoming an increasingly attractive hunting ground

THIS month Omar Bongo—the longest-serving ruler in Africa—celebrated 40 years in power in Gabon. In Libreville pictures of him hang everywhere. But outside the country, Gabon achieved a far more impressive landmark, when it raised $1 billion on the international markets—becoming only the third country in continental sub-Saharan Africa in two decades to issue sovereign bonds abroad.

The West African country has oil, close ties with China and better-managed public finances, which are three of the ingredients sought after by Africa's foreign creditors—even those who may struggle to find Gabon on a map. Increasingly, other African countries, including those without oil, are also arousing interest among outsiders. Ghana launched an international sovereign bond in September. Kenya, and possibly Zambia and Tanzania, hope to follow.

There is a dizzying sense of the gold rush about the way investment bankers are peddling the continent to investors. Many portray parts of sub-Saharan Africa as the new frontier for risk-takers, offering returns that, it is hoped, will be uncorrelated to the fluctuations of developed markets. Sometimes the salesmen gloss over the political risks, the corruption and the debilitating exposure to commodity cycles. But it is not all hype. High commodities prices, good debt-management (the proceeds of Gabon's ten-year bond will go toward buying back its Paris Club debt), debt relief and better economic leadership have produced the strongest growth and lowest inflation in sub-Saharan Africa in over 30 years. South Africa is still the biggest magnet for foreign portfolio investment, but capital is flowing into shares and bonds elsewhere, too (see chart).



Even those countries unable to issue international bonds are preparing the ground. Standard & Poor's (S&P), a credit-rating agency, has been working since 2003 with the United Nations Development Programme and rates 13 countries in sub-Saharan Africa. In November S&P opened its first African office in Johannesburg. Ratings provide a proxy measure of country risk and demonstrate a country's commitment to transparency, both of which should help attract foreign capital.

Domestic debt markets are also opening to foreigners—though most of the money is being raised by states, rather than private companies. In the West African Economic and Monetary Union, annual issues of publicly traded government debt have grown tenfold since 2000, reaching 383 billion CFA francs ($770m) in 2006. In some sub-Saharan countries, 10-20% of local sovereign bonds are now held by foreigners, according to the IMF.

Because investing in local markets can still give foreigners headaches, some banks are offering synthetic securities instead. For example, South Africa's Standard Bank, which operates in 18 African countries, packages local government bonds into instruments it sells to foreign investors. Meanwhile, the development institutions are doing their bit to spur innovation. The African Development Bank has issued eight Eurobonds denominated in, or linked to, African currencies, starting with a bond in Botswanan pulas in 2005. The International Finance Corporation (IFC), the private arm of the World Bank, has done currency swaps in Zambian kwachas and Nigerian nairas.

Equity investors are also finding a way in, though via circuitous routes. Most stock exchanges outside South Africa and Nigeria remain minuscule and illiquid, but returns are picking up. Renaissance Group, a Moscow-based emerging-market bank, says that its index of 50 shares listed on 11 exchanges across sub-Saharan Africa increased by 39% in dollar terms between January and October this year—compared

with 29% for the broader MSCI emerging-market index. Making the markets more accessible to outsiders, Merrill Lynch is listing its Africa Lions Index certificates, which track shares in at least 15 African countries, on several European exchanges.

Is the appetite likely to last? On the one hand, more transparency means less scope for corruption and profligacy. Provided the funds are used sensibly, they should keep on coming. But until Africa's economies become more diversified, they will be over-exposed to changeable weather, fickle aid flows and volatile commodity prices. Ultimately, Africa has to manage the bounty carefully. After an unprecedented wave of debt relief, it would be a shame to drown in debt again.

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China and America

Monologuing

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From The Economist print edition

The "Strategic Economic Dialogue" fails to produce much strategy or dialogue

WHEN Hank Paulson left Goldman Sachs to become America's treasury secretary last year, one of the few perks of the job was the chance to put his impressive links with China to good use in the service of his country. He had, after all, visited China at least 70 times.

Diplomacy on behalf of a bulge-bracket investment bank has proved to be far easier than dealmaking between Washington, DC, and Beijing, however. That, at least, is the conclusion from the third round of the cabinet-level Strategic Economic Dialogue between December 12th and 13th.

With China's massive trade surplus emerging as populist fodder for presidential candidates in America, and just one more round of the talks—in the midst of the presidential campaign—scheduled before a change of administrations, the discussions needed to show some substance. They produced precious little.

The meetings have always been an odd balance between the need to show immediate trade concessions, "deliverables" to use the Treasury phrase, and what both sides would say were the more important goals—progress towards stronger economic ties. Perhaps this was too ambitious a goal; perhaps the differences between China and America are too large; or perhaps Mr Paulson is weaker when separated from the intense brain trust that worked for him at Goldman. Whatever the case, the treasury secretary has struggled.

From the beginning, the talks have tripped up over China's efforts to restrain the yuan's rise against the dollar. Mr Paulson raised the issue again this week. Far from offering a sympathetic response, Chen Deming, China's incoming commerce minister, cited the weakness of the dollar as a bigger threat than the yuan is to the world economy.

The proclaimed progress whiffed of empty symbolism. On the eve of the discussions, Mr Paulson attended the opening of a New York Stock Exchange office in Beijing, something China permitted a year ago when its boom in initial public offerings was just beginning. Now, with share prices surging in Shanghai and China's regulators pressing domestic companies to list at home, opportunities for an American exchange are less clear-cut. Elsewhere, Chinese officials were not in a particularly conciliatory mood. They railed at America for taking a dispute over intellectual property to the World Trade Organisation. Reflecting their displeasure, it emerged during the talks that China would suspend the import of American movies—the 20, that is, that are not already banned.

There was one bright spot. Michael Leavitt, America's health secretary, unveiled a plan to allow both countries to make surprise safety inspections of each other's factories producing food, medical devices and drugs. Although this may take years to organise, it would be more efficient than border checks and should improve safety standards. Perhaps it helped that in forging a deal to reduce risk, Mr Leavitt's own background in financial services was in insurance, not investment banking.

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Property bubbles

Been there, done some of that

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Lessons from Japan's financial crisis should worry, and embarrass, America

AFP

Sadly, he knows the end of the story

ANOTHER month, another bank in trouble, another raised estimate of bad assets in the financial system, and another move by the central bank to try and contain the problem: to observers in Japan, America's spreading credit crunch has an eerily familiar ring.

Though differences between the subprime crisis and the bursting of Japan's own property bubble after 1989 are inevitably great, the similarities are striking. As Kazuto Uchida, chief economist at Bank of Tokyo-Mitsubishi UFJ, points out, both the Japanese and American bubbles were inflated at a time of financial experimentation and easy credit. America saw a huge growth in the securitisation of mortgage assets and “structured investment vehicles” when the Federal Reserve was providing cheap money. Similarly, Japan in the mid-1980s faced pressure from the United States to liberalise its markets. That sparked a wave of “financial engineering”, and the proliferation of new products such as derivatives. The cocktail was given added fizz by American pressure to revalue the yen: in response to a rising currency, the Bank of Japan (BoJ) cut interest rates, flooding the economy with cheap cash. All of which reinforced an impression that the economy had broken free from the usual boom-and-bust cycles.

Crucially, both were property-related bubbles, commercial in Japan and residential in America. Ironically, after the BoJ raised rates and burst the bubble, American bankers and policymakers were quick to lecture the Japanese. With four-fifths of Japanese lending ultimately related to property, Americans were incredulous that banks had been foolish enough to lend against collateral for which the value could go down as up; in the United States, they said, banks lent against cash flow, the best gauge of a borrower's ability to repay a debt. Japan got into the mess by assuming land prices only rose (in cities they have since fallen by about 70%). But American financiers have made the same silly assumptions, gaily advancing money to “ninjas”: people with no income, no job and no assets. Even if some local property markets tanked, they figured, a nationwide bust was almost unthinkable. They were very wrong.

One reason the approach of both crises was widely missed was that most of the warning signs were not at parent banks but in affiliates, subsidiaries and other murky offshoots. In Japan such affiliates were often the parent bank's biggest customers. Yet these did not feel bound to make provisions against souring assets. After all, if things really came to a pass, they believed the parent would bail them out.

Also, much of the big banks' lending went to smaller banks, which lent the money on—to subprime borrowers. This chain of property lending kept problems at arm's-length for too long, says Tetsuro Sugiura, chief economist at Mizuho Research Institute. “Had we had integrated balance sheets reflecting the whole picture of banks' lending, we would have been able to recognise the problems much sooner.” That might ring a bell.

The ability of financial crises to spread out from their spawning grounds is also all too familiar. Once Japan's banks were seen as tainted, they were unable to raise funds in the short-term money markets. As a consequence, they scaled back lending to corporate clients (including those overseas), which quickly felt the pain. Unable to raise money from banks or in the capital markets, Japanese companies stopped lending to each other: trade credit, which had accounted for about a third of all lending, dried up.

Meanwhile, depositors took their money out of banks and stuffed it in the post office or under their mattresses. This aggravated the crisis in the banking system. The first estimate of banks' bad loans made by the Ministry of Finance in the early 1990s put them at ¥8 trillion ($8 billion); a decade later, banking analysts reckoned the figure was closer to ¥200 trillion.

Some will argue that the speed with which American banks and their regulators have addressed the subprime crisis renders all other comparisons invalid. For Japan dithered mightily in tackling its problems. At first, it was assumed that property prices would soon resume their happy rise. Until at least 1994, regulators actively colluded with banks to hide the scale of bad loans. It was not the late 1990s that the government stepped in to bail out the banking system, and it only got serious about banks tackling their bad loans after 2002—12 years after the bubble burst.

Undoubtedly America's fast-moving crisis has bred a quicker response. Yet Japanese economists and central bankers see familiar dangers in market-propping intervention that clouds transparency and prevents asset prices from quickly reaching a new equilibrium. The administration's desire to cap some mortgage rates is one example. More worrying, they say, is its backing for the “superfund” proposed by Citigroup, Bank of America and JPMorgan Chase into which all sorts of toxic assets might be poured, out of sight and out of mind. But no *Schadenfreude* exists in Japan. After all, the subprime crisis also threatens the economic recovery that Japan desperately desires.

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Economics focus

The uncomfortable rise of the rupee

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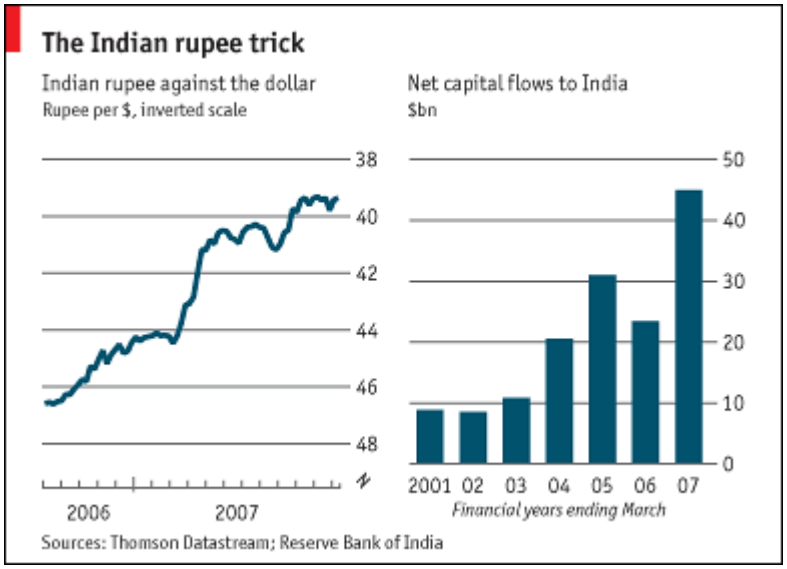
Is India suffocating from too much foreign attention?



INDIA, it is fair to say, is not yet reconciled to the new-found strength of its currency. One poor wretch, pressed against the car window at a Delhi traffic light, tries to change a dollar bill she presumably cadged off a tourist. She wants 50 rupees for it.

Alas, the dollar now fetches less than 40 rupees (see left-hand chart). India's currency has strengthened by about 15% against the greenback in the past year and by over 10%, on an inflation-adjusted, trade-weighted basis, since August 2006. The rupee's rise may be less dramatic than that of the Philippine peso, Brazilian real or Turkish lira. But it is uncomfortable nonetheless.

This vigour is due to a strong inflow of foreign capital, some of it enticed by India's promise, the rest disillusioned by the rich world's financial troubles. The net inflow amounted to almost $45 billion in the year to March, compared with $23.4 billion a year earlier (see right-hand chart).

Street children are not the only ones regretting this influx. India's IT industry, which first advertised India's virtues to the outside world, is now suffering more than most from the avid interest in the rupee. Worst hit, however, are India's labour-intensive manufacturers. Textile exports, for example, fell by 11.7% in the year to April. Kamal Nath, India's minister of commerce and industry, fears that exporters may shed 2m jobs.

The Reserve Bank of India (RBI), the country's central bank, has done its best to resist the appreciation, and, at the same time, contain inflation at home. As any student of macroeconomics knows, central banks struggle to achieve both objectives simultaneously in the face of strong inflows of capital. Printing rupees to buy the incoming dollars keeps the currency cheap but also adds to the money supply, stoking inflation.

To avert this danger, the RBI has tried to claw back the extra money by selling “sterilisation” bonds to banks and raising the reserves they must lock up in its vaults. But this sterilisation effort is hard to maintain. The RBI intermittently pauses for breath, letting go of the rupee. The market, anticipating its exhaustion, only tests it all the harder.

India's currency dilemma is also a deeper philosophical one. Just as the Reserve Bank straddles two

objectives, so India is torn between competing visions of its future.

On the one hand, the country envies China its export success. The yuan remains keenly priced and closely shepherded. Why, then, reason many Indians, should their country handicap itself with a stubbornly strong exchange rate.

On the other hand, India has spent at least 15 years tentatively opening its capital account and liberalising its financial markets. It has had particular success in attracting foreign interest in its companies' shares, rather than the bonds or loans that got so many emerging economies into trouble in the past. Why not take advantage of this foreign money to pay for the investment the country so sorely needs? Ila Patnaik and Ajay Shah, of New Delhi's National Institute of Public Finance and Policy, point out that India has long yearned for a sustainable flow of foreign finance to supplement its domestic saving. Indeed, in 2002 its planning commission complained that the country's current-account deficit was less than half the size it had envisaged.

Nonetheless, some fear—and others hope—that the dearer rupee will prompt India to take a step backwards and tighten its controls on capital inflows. The RBI already circumscribes the freedom of firms to raise money abroad, and in October the regulator put a freeze on “participatory notes”, an indirect way for foreigners to play the Indian stockmarket.

Might it go further? In the 1990s Chile threw some “sand in the wheels” of international finance by forcing foreign investors to deposit a fraction of their money directed toward the country in an interest-free account. The *encaje*, as it was called, remains the most fashionable and widely studied experiment in capital controls. It probably helped to deter short-term investments. But the overall volume of inflows did not slow and Chile's real exchange rate continued to appreciate.

The other Chilean lesson from that period is more orthodox and thus less talked about. The government showed admirable fiscal restraint, which relieved some of the upward pressure on domestic prices, and also left the exchequer with enough money and credibility to cushion the economic downturn when foreign capital eventually turned tail in 1998.

Control freak

Such controls might buy India a temporary respite, but they will hardly convert it into a Chinese export powerhouse. Ms Patnaik thinks India has already gone too far down the road of financial liberalisation to emulate the exchange-rate policies of its bigger neighbour. China can accomplish its feats of reserve accumulation and sterilisation only because the country's banks are so docile and its savers captive. The banks are force-fed sterilisation bills, which yield even less than the central bank earns on its foreign reserves. They nonetheless survive because they rely on a steady supply of deposits from China's savers, who have few other places to put their money.

In India, on the other hand, banks are less compliant and savers are more choosy. If the banks do not offer them an attractive interest rate, they will buy shares, property or jewellery instead. Hence the banks, in turn, will not buy the RBI's sterilisation bonds unless it offers them an adequate return.

The migration of capital from the rich world to the poorer one is a sign of a bleaker season to come in the world's biggest markets. This would, then, seem an inauspicious moment for India to bet its future on export-led growth. If it cannot resist the inflow of foreign capital, it should try instead to make room for it—by observing fiscal restraint—and to make the most of it—by investing it wisely. India may then have an economy worthy of a more expensive rupee; and its children may have better things to do than hang around at traffic lights trying to change a buck.

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Human evolution

Darwin's children

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Human evolution has speeded up over the past 80,000 years. That raises awkward questions about the concept of "race"

Stone

PROBABLY, more bad science has been conducted on the concept of human race than on any other field of biology. The reason is that an awful lot of research into race has been motivated by preconceived ideas that one lot of people are somehow "better" than another lot, rather than being a disinterested investigation of regional variations in a single species and the evolutionary pressures that have created them.

Contrariwise, even well constructed studies, if they do find racial differences, risk opposition from those who deny that people from different parts of the world could ever differ genetically from one another in important ways. As a result, only the foolish or the daring rush in to add to the carnage. It remains to be seen which category the authors of two papers in this week's *Proceedings of the National Academy of Sciences* fall into.

One of the papers, written by Andrea Migliano and her colleagues at Cambridge University, looks at a local outcome of human evolution—the short stature often known as pygmyism—and tries to explain the evolutionary circumstances that cause it. The other, by Robert Moyzis of the University of California, Irvine, and his colleagues, asks a broader question: how much evolutionary change has happened since *Homo sapiens* climbed out of his African cradle and began to colonise the world? The answer is, quite a lot—and the rate of change seems to have speeded up.

Breed early and breed often

The best known pygmies are the Aka, Efe and Mbuti of central Africa. However, by the standard definition—which is that a group's men have an average height below 1.55 metres—there are also pygmies in the Andaman Islands, Malaysia, Thailand, Indonesia, the Philippines, Papua New Guinea, Brazil and Bolivia.

African pygmies usually live in forests, and the conventional explanation for their stature has been that it makes it easier for them to move through dense vegetation. There are also two competing explanations: that small bodies keep cool more readily than large ones (pygmyism tends to be a tropical phenomenon) or that pygmies live in places with unreliable food supplies, and their size means they can make do with smaller meals.

Dr Migliano and her team reject all these explanations. Some non-African pygmies live outside forests and many live in cool, dry areas. Moreover, some of the world's tallest people, such as the Turkana and Maasai of East Africa, suffer periodic interruptions to their food supply. Instead, the researchers suggest that short stature is not a desirable feature in itself, but is rather a consequence of something else, namely a need to reproduce early.

By adding pre-existing data for African pygmies to new information they have collected about the Aeta and the Batak of the Philippines, they show that at the beginnings of their lives all these pygmy populations follow the same growth curves as taller people, including Turkana and Americans. This demonstrates that pygmyism is not a result of early malnutrition, as another hypothesis has it. At the age of about 12, however, pygmies stop growing. That is also the age at which they become sexually mature—about three years earlier than taller people.

The other part of the argument is that all observed pygmy populations have a short life expectancy. Indeed, this, according to Dr Migliano's hypothesis, is the crucial evolutionary pressure. Of the six groups of pygmies for whom data exist, two have a life expectancy of 24 years and the other four about 16 years.

Exactly why that is so probably varies from place to place (in the case of the Filipino groups, Dr Migliano cites tuberculosis, measles and malaria as the most likely causes), but the actual reasons do not affect the evolutionary argument. This is that a short life exerts pressure to mature early, and thus switch resources from growth to reproduction. A mathematical model used by the team confirms that, given pygmy life expectancies, their growth and reproduction patterns have indeed been optimised by natural selection. The various pygmy groups are thus the products of harsh circumstances.

Local heroes

Such alteration of stature is a particularly clear example of what Dr Moyzis's paper suggests is a wider phenomenon—that *Homo sapiens* is continuing to undergo local evolution. He and his colleagues reckon they can both estimate the rate of evolution and identify many of the evolving genes, by using a trick with the clumsy name of linkage disequilibrium.

Genes are linked together in cell nuclei on structures called chromosomes. These come in pairs, one from each parent. However, when sperm and egg cells are formed, the maternal and paternal chromosomes swap bits of DNA to create a new mixture. The pieces of DNA swapped are complementary—that is, they contain the same types of gene. But they may contain different versions of the genes in question, and these different versions can have different biological effects.

Over the generations this process of swapping mixes the genes up thoroughly, and an equilibrium emerges. If a new mutation appears, however, it will take quite a while for that thorough mixing to happen. This means recent mutations can be spotted because they are still linked to the same neighbouring bits of DNA as they were when they first appeared. Moreover, the size of these neighbouring blocks gives an indication of how long ago the mutation in question emerged; long blocks suggest a recent mutation because the mixing process has not had time to break them up.

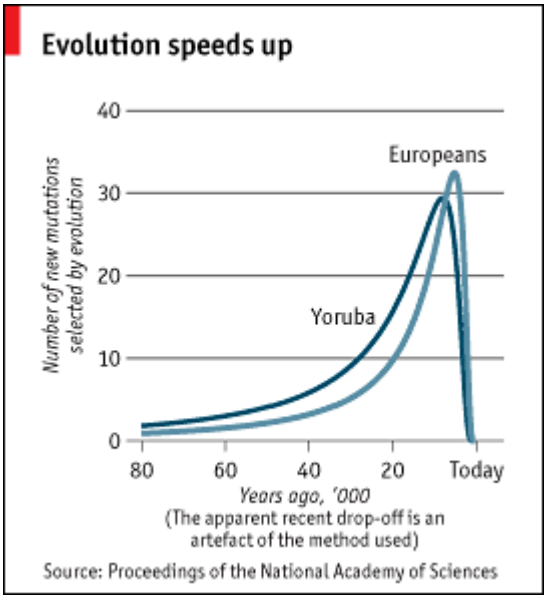
All this has been known for decades, but it is only recently that enough human DNA sequences have become available for the technique to be used to compare people from different parts of the world. And this is what Dr Moyzis and his colleagues have now done.

What they have found is that about 1,800 protein-coding genes, some 7% of the total known, show signs of having been subject to recent natural selection. By recent, they mean within the past 80,000 years. Moreover, as the chart shows, the rate of change has speeded up over the course of that period. (The sudden fall-off at the end is caused because the linkage-disequilibrium method cannot easily detect very recent mutations, rather than by a sudden reduction in the rate of evolution.) The researchers put this acceleration down to two things. First, the human population has expanded rapidly during that period, which increases the size of the gene pool in which mutations can occur. Second, the environment in which people find themselves has also changed rapidly, creating new

contexts in which those mutations might have beneficial effects.

That environmental change itself has two causes. The past 80,000 years is the period in which humanity has spread out of Africa to the rest of the world, and each new place brings its own challenges. It has also been a period of enormous cultural change, and that, too, creates evolutionary pressures. In acknowledgment of these diverse circumstances, the researchers looked in detail at the DNA of four groups of people from around the planet: Yoruba from Africa, Han Chinese and Japanese from Asia, and Europeans.

Various themes emerged. An important one was protection from disease, suspected to be a consequence of the increased risk of infection that living in settlements brings. In this context, for example, various mutations of a gene called *G6PD* that are thought to offer protection from malaria sprang up independently in different places.



A second theme is response to changes in diet caused by the domestication of plants and animals. One example of this is variation in *LCT*, a gene involved in the metabolism of lactose, a sugar found in milk. All human babies can metabolise lactose, but only some adults can manage the trick. That fact, and the gene involved, have been known for some time. But Dr Moyzis's team have worked out the details of the evolution of *LCT*. They suspect that it was responsible for the sudden spread of the Indo-European group of humanity about 4,000 years ago, and also for the more recent spread of the Tutsis in Africa, whose ancestors independently evolved a tolerant version of the gene.

The pressures behind other changes are less obvious. In the past 2,000-3,000 years, for example, Europeans have undergone changes in the gene for a protein that moves potassium ions in and out of nerve cells and taste buds. There have also been European changes in genes linked to cancer and Alzheimer's disease. Chinese, Japanese and Europeans, meanwhile, have all seen changes in a serotonin transporter. Serotonin is one of the brain's messenger molecules, and is particularly involved in establishing mood.

The finding that may cause most controversy, however, is that in the Asian groups there has been strong selection for one variant of a gene that, in a different form, is responsible for Gaucher's disease. A few years ago two of the paper's other authors, Gregory Cochran and Henry Harpending, suggested that the Gaucher's form of the gene might be connected with the higher than average intelligence notable among Ashkenazi Jews. The unstated inference is that something similar might be true in Asians, too.

The Ashkenazim paper caused quite a stir at the time. It was merely a hypothesis, but it did suggest a programme of research that could be conducted to test the hypothesis. So far, no one—daring or foolish—has tried. Eventually, however, such questions will have to be faced. The paper Dr Moyzis and his colleagues have just published is a ranging shot, but the amount of recent human evolution it has exposed is surprising. Others will no doubt follow, and the genetic meaning of the term “race”, if it has one, will be exposed for all to see.

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Human mating

A buyers' market

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Men propose; women dispose

WOMEN often complain that dating is like a cattle market, and a paper just published in *Biology Letters* by Thomas Pollet and Daniel Nettle of Newcastle University, in England, suggests they are right. They have little cause for complaint, however, because the paper also suggests that in this particular market, it is women who are the buyers.

Mr Pollet and Dr Nettle were looking for evidence to support the contention that women choose men of high status and resources, as well as good looks. That may sound common sense, but it was often denied by social scientists until a group of researchers who called themselves evolutionary psychologists started investigating the matter two decades ago. Since then, a series of experiments in laboratories have supported the contention. But as all zoologists know, experiments can only tell you so much. Eventually, you have to look at natural populations.

And that is what Mr Pollet and Dr Nettle have done. They have examined data from the 1910 census of the United States of America and discovered that marriage is, indeed, a market. Moreover, as in any market, a scarcity of buyers means the sellers have to have particularly attractive goods on offer if they are to make the exchange.

The advantage of picking 1910 was that America had not yet settled down, demographically speaking. Though the long-colonised eastern states had a sex ratio of one man to one woman, or thereabouts, in the rest of the country the old adage “go west, young man” had resulted in a surplus of males. Mr Pollet and Dr Nettle were thus able to see just how picky women are, given the chance.

Rather than looking at the whole census, the two researchers relied on a sample of one person in 250. They then assigned the men in the sample a socioeconomic status score between zero and 96, on a scale drawn up in 1950 (which was as close to 1910 as they could get). They showed that in states where the sexes were equal in number, 56% of low status men were married by the age of 30, while 60% of high status men were. Even in this case, then, there are women who would prefer to remain single rather than marry a deadbeat. When there were 110 men for every 100 women (as, for example, in Arizona), the women got really choosy. In that case only 24% of low-status men were married by 30 compared with 46% of high-status men. As the men went west, then, so did their marriage opportunities.

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Extraterrestrials

Lodestones, not life

Dec 13th 2007
From The Economist print edition

The building blocks for life emerged on Mars—but not life itself

AP

No sign of aliens after all

FOR a dull lump of greyish rock, ALH 84001 has had an eventful life. The meteorite, which was retrieved from the Allan Hills of Antarctica in 1984, is certainly well travelled. Experts in the field think it came from Mars, having been blasted off the surface of that planet by a collision with an even bigger meteorite. More than that, it contains minerals that some researchers believed, in a flurry of publicity when the rock was properly examined just over a decade ago, must have been made by living things on the Martian surface. The number constituting "some" has been dwindling since then, but there are still a few hold-outs who think ALH 84001 is indeed the first evidence of extraterrestrial aliens—albeit of bacterial dimensions.

The reason why ALH 84001 is so interesting is that it contains organic compounds. Life is thought to have emerged on Earth from a primordial soup of such compounds, which are based on carbon, hydrogen and oxygen, though just how it did so is obscure. When ALH 84001 was analysed, however, some astrobiologists suggested that the conventional explanation might be wrong. Perhaps life had evolved on Mars first and the red planet had then "seeded" its blue neighbour when rocky projectiles similar to ALH 84001 were blasted off its surface in abundance in an era when the solar system had a lot of loose asteroids flying around.

To test these claims, a group of researchers led by Andrew Steele of the Carnegie Institution in Washington, DC, decided to identify precisely what ALH 84001 contains and then compare the results with those from rocks that definitely formed on Earth. Using a number of different techniques, they discovered that the tiny spheres of carbonate minerals within the meteorite which had caused such a stir were surrounded by an iron-oxide mineral called magnetite.

Some true believers had seen the presence of magnetite in the meteorite as evidence supporting their cause. That was because certain earthly bacteria make small grains of the mineral, in order to navigate their habitats using the Earth's magnetic field, much as human navigators once used lodestone compasses made of magnetite to find their way around. However, most of the magnetite on Earth is not bacterial. Instead, it was ejected in liquid form from volcanoes. If this magnetite cools in an environment rich in water and carbon dioxide (which terrestrial volcanoes usually are), it can act as a catalyst for the formation of organic compounds from the carbon, hydrogen and oxygen atoms in those two raw ingredients.

Dr Steele and his colleagues thus decided to compare ALH 84001 with volcanic rocks collected in Svalbard, the northernmost territory of Norway. These rocks are thought to have formed when volcanoes erupted in freezing, pristine conditions a million years or so ago.

The researchers found that the earthly boulders, too, contained carbonates encircled by magnetite. Writing in a forthcoming issue of *Meteoritics and Planetary Science*, they conclude that the organic material in ALH 84001 was made not by Martian microbes but, rather, by chemical reactions within the rock.

Such a conclusion may be disappointing to astrobiologists, who seek to study life on other planets, so far without success. But it also offers them hope. If Dr Steele and his colleagues are correct, then volcanic activity in a place other than Earth has produce interesting-looking organic compounds. That means the building blocks of life could form on cold, rocky volcanic planets throughout the universe. And the universe is a very big place.

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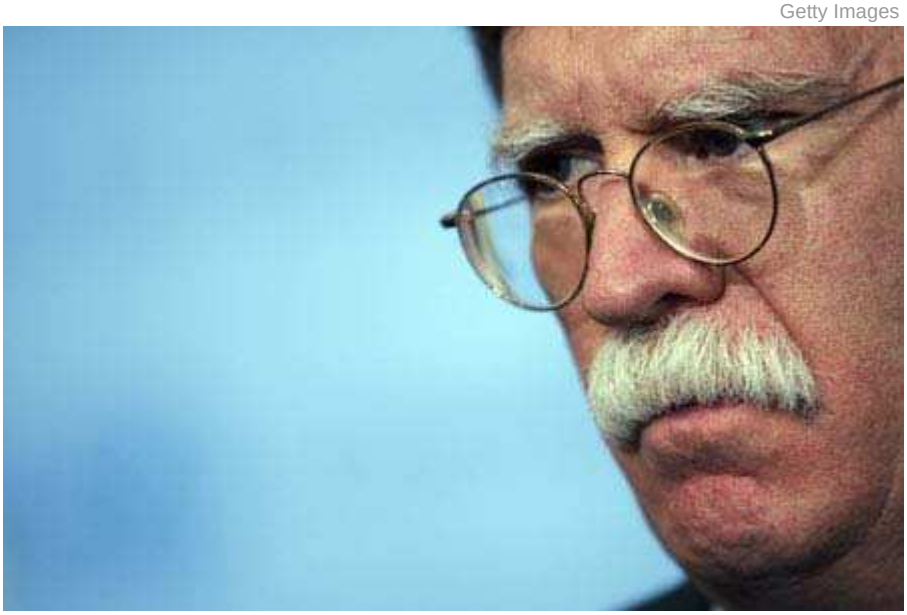
John Bolton

Looking back in anger

Dec 13th 2007
From The Economist print edition

Getty Images



A new memoir reveals more about America's former ambassador to the United Nations than about the work he did there

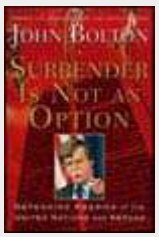
SURELY even John Bolton cannot be quite as curmudgeonly as this? In a memoir devoted mainly to his nearly six years of government service under President George Bush, America's former ambassador to the United Nations has a bad word for almost everyone who dared stand up to him. This is odd. One of his attractions has always been his willingness to argue it out with his opponents: when other neocons went missing in action, he defended the cause. Yet in this book, this undeniably talented man of principle often comes across as a domineering bully.

Mr Bolton first served Mr Bush at Colin Powell's State Department. He was named ambassador to the UN in August 2005, but in 2006 the Senate did not confirm his appointment. Mr Bolton had already made a name for himself as an arch-conservative and fierce patriot. He believed “multilateralism” was a dirty word, treaties were not worth the paper they were written on and American might was right. Diplomacy, he told Mr Bush, was “advocacy, advocacy for America”.

But his forceful views and abrasive style did not always go down well with his bosses in Washington. Two months before Mr Bolton took up his post, Nicholas Burns, the number three in the State Department, reminded the Senate Foreign Relations Committee just how crucial the UN had been in helping America achieve its foreign-policy goals. In “many important areas”, the world body was “working well to help bring development, security and peace to the world”, he said.

Mr Bolton began by lobbying heavily for reform at the UN. Yet, despite his own “Herculean” efforts, the plan eventually adopted by world leaders accomplished “little or nothing” of what America wanted, he says. In his view, two changes were, and still are, essential: a switch to voluntary contributions for all UN programmes; and the introduction in the General Assembly of weighted voting, based on the size of a country's contributions. It is “inherently untenable”, he says, that America, which provides 22% of the UN's budget, is “simply one nation with one vote among 192 ‘equal’ nations.”

Surrender is Not an Option: Defending America at the United Nations and Abroad
By John Bolton



Threshold Editions; 486 pages; $27 and £18.99

Buy it at
Amazon.com
Amazon.co.uk

Mr Bolton has always held iconoclastic opinions. From the age of 15, when he took time off school to campaign for Barry Goldwater in the 1964 presidential campaign, he seems to have seen himself in a world full of hostile forces with which he and a small number of like-minded valiant conservatives constantly have to do battle.

He describes the State Department, where he worked for nearly ten years, as a den of dangerous “high-minded” (his worst term of abuse) liberals, “schooled in accommodation and compromise rather than aggressive advocacy of US interests.” He blames successive secretaries of state, including the present one, for having ignored the root-and-branch reform which he believes the department needs even more urgently than the UN. The problem has thus been allowed “to fester and grow to the point where our capacity to advocate American interests in foreign affairs is now seriously impaired”. America's foreign policy, he says, is now in “disarray”.

Mr Bolton is also hard on his former colleagues in New York. “Watching [Sir Emyr] Jones Parry in action,” he says of Britain's ex-envoy to the UN, “I often wondered how Britain had acquired an empire.” Mark Malloch Brown, the UN's former number two and once a writer for this newspaper, now a British foreign minister, also angered him. In a speech in Washington in June 2006, Lord Malloch Brown complained about America's “fitful” engagement with the UN and the distorted image it had in “Middle America” thanks to conservative detractors such as Rush Limbaugh, a television talk-show host, and Fox News. This, Mr Bolton sneers, “was a typically elitist, left-wing view of the slobs in ‘flyover country’.”

His greatest spite, however, is reserved for Kofi Annan, regarded by many as one of the finest secretaries-general the UN has ever had. Yet Mr Bolton describes him as weak, vain, power-hungry and possibly even corrupt; a man who was “simply not up to the job”. Mr Annan's proposals for UN reform, published in March 2005, were “an unrealistic and pretentious grab-bag of ideas”, designed to rescue his “diminished reputation” (as a result of the oil-for-food scandal) and ensure his legacy, he says.

What he fails to mention is that Mr Annan's proposals were almost entirely based on those put forward three months earlier by a “high-level [UN] panel” of international dignitaries. They included Brent Scowcroft, national security adviser under presidents Gerald Ford and George Bush senior, and chairman of the President's Foreign Intelligence Advisory Board in 2001-05.

Yet, for all his bluster, Mr Bolton seems curiously insecure. He apparently feels a need to report every honour he has ever received, every round of applause and every kind word, however trivial. “You're absolutely right,” he carefully notes Condoleezza Rice, secretary of state as telling him on one occasion. “I'm for him,” said Arlen Specter, a senior Republican senator, at Mr Bolton's (second) confirmation hearings: “I think he's done a good job. He's smart, he's industrious and he's cantankerous, and those are good qualities.” But not sufficient.

On many issues, Mr Bolton fought the good fight at the UN. He failed because he went about it the wrong way. Intelligent, energetic and witty he may be. But in an organisation where nothing gets done without a readiness to make friends, form coalitions and accept compromises, Mr Bolton put almost everyone's back up.

The publishers describe this as an “explosive” book that is “sure to become required reading for everyone interested in international affairs”. It is not. Although there is some amusing tittle-tattle, it reveals little about America's recent foreign policy that was not already widely known—or at least strongly suspected—and aired in the press. A pity.

Surrender is Not an Option: Defending America at the United Nations and Abroad.
By John Bolton.
Threshold Editions; 486 pages; $27 and £18.99

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Religion in Europe

The discovery of tolerance

Dec 13th 2007
From The Economist print edition

A TYPICAL Protestant view of European religious history might go like this. In medieval times, the Roman Catholic church grew increasingly corrupt and impervious to criticism. Then came the Reformation, with its new breath of freedom and tolerance. After a brief fightback that culminated in the ghastly Thirty Years War in 1618-48, Europe moved smoothly towards the Enlightenment and today's ideal of secular tolerance. It was all quite unlike, for example, Islam and the horrors of the Ottoman empire.

Most of this conventional picture is entirely wrong, as this splendid book by Benjamin Kaplan shows. Certainly, the medieval Catholic church continued to stamp heavily on heresy, but Enlightenment Protestants were often also deeply intolerant, not only of Catholics but also of each other (Mr Kaplan's book opens with the burning of Servetus, a noted Spanish Protestant, in Calvin's Geneva). It took more than 150 years after the Peace of Westphalia in 1648 for most Europeans even to grasp the concept of religious tolerance. Well into the 19th century, the Ottomans were far more hospitable than the rest of Europe to religious minorities.

As he tells this story, Mr Kaplan ranges widely around Europe. He gives due weight to Britain and Ireland in a European setting: the civil war and the spread of Puritanism, the Catholic intolerance of James II and the anti-Catholic Gordon riots as late as the 1780s all argue against the easy assumption that the English were unusually tolerant compared with, say, the French. Yet Louis XIV's revocation of the Edict of Nantes in 1685 and, later, his expulsion of the Huguenots were exceptionally intolerant acts that did much damage, not just to Protestants but to France.

The main focus of the book is, however, on the regions of Europe that had the most mixed-up religious map of all, such as Switzerland, the Low Countries (American-born Mr Kaplan, a history professor at University College London, is a Dutch specialist) and, above all, the German principalities that made up the Holy Roman Empire. The empire soon adopted the curious and often cruel practice of *Cuius regio, eius religio* (“whose the region, his the religion”), under which a local sovereign chose his subjects' religion. The book is worth a look merely for its fascinating vignettes of religious life in these regions.

One striking discovery is that there was more religious freedom in the 16th century than after the wars of religion ended a century later. The author tells of the widespread use of *Auslauf*, whereby Protestants were able to worship outside a Catholic city's walls; of the clandestine yet accepted Catholic churches in the Netherlands known as *Schuilkerken*; and of the practice of *Simultaneum,* the sharing of churches between Protestants and Catholics in such places as Biberach and, later, Augsburg. That sensible arrangement would be hard to imagine today.

Indeed, it would be a long time before Europe's Christians rediscovered such a spirit of religious tolerance. That is something critics of today's Islamic world should remember, as should unquestioning believers in the virtue of the European Enlightenment. As well as its fine story-telling, Mr Kaplan's book has the great merit of reinstating religion and quarrels about religious practice at the heart of the modern European history—where they clearly belong.

Divided by Faith: Religious Conflict and the Practice of Toleration in Early Modern Europe.
By Benjamin J. Kaplan.
Belknap Press; 432 pages; $29.95 and £19.95

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By Benjamin J. Kaplan

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Christian history

Stories and storytellers

Dec 13th 2007
From The Economist print edition

HOW do you begin describing the “life” of a document which probably had dozens of human authors and redactors, and whose highly diverse component parts were written down over a period of more than 1,000 years? Throw in the notion that the book's declared purpose is to describe a far longer process—the entire history of God's relationship with man and creation. Finally add in the fact that over the past 2,000 years, the text has been endlessly reread in accordance with human society's ever-changing needs, hopes and fears.

Even for Karen Armstrong, who is a skilled presenter of arcane material, the challenge is daunting. For any given part of the Bible, there are at least three different strands which might be drawn out: the narrative itself, and its ostensible historical setting; the period (often hundreds of years later) when the story was put in writing; and the various ideological uses which the narrative has served.

As an example of the biblical scholar's challenge, take the book of Daniel. On the face of it, this is a story about a sort of court prophet, skilled in interpreting dreams, whose powers impress the king in Babylon where a group of Jews were in exile between 586 and 538BC. But as Ms Armstrong points out, many modern scholars regard the book as a kind of inspiring “historical novel” penned about 400 years later during the Jews' struggle to throw off the influence of Hellenistic despots. And among later generations, many different aspects of Daniel's story have been stressed.

From the earliest Christian centuries, the church revered the book's account of the three youths who were cast into the furnace but remained unharmed; and above all, on the mysterious fourth figure who appeared in the flames, seen by Christians as prefiguring Jesus Christ. Among oppressed peoples, such as American blacks, the tale of Daniel is seen as a story of courage in the face of a tyrant. For people who like to mix their religion with geopolitics, the book of Daniel has a lot to say about the fall of mighty empires.

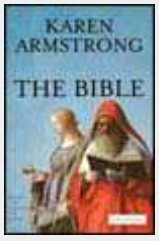
So there are many different places at which Ms Armstrong might have decided to enter the dense forest of Bible scholarship. Her chosen entry-point is a telling one: the moment when a young priest called Ezekiel, standing by a canal in Babylon where he has been in exile for five years, experiences a terrifying vision. He sees God leaving Jerusalem, riding in a war chariot, and coming to dwell with the exiles. Ezekiel is presented with a scroll and hears an order to eat it. When he complies, he finds to his surprise that it tastes as sweet as honey.

There is a good reason why Ms Armstrong lays such emphasis on the Babylonian exile. By explaining the different strains in Jewish religious life just before, during and immediately after the exile, she is able to sketch out a basic taxonomy of religious culture which, as many scholars have realised, can be of help to almost any analyst of Abrahamic monotheism.

At one end of the religious spectrum, Ms Armstrong recalls, there were the Deuteronomists, who emphasised central authority, obedience to the law and territorial conquest—and discounted the possibility of any direct encounter with God. At the other end was the priestly school whose memory of the Holy of Holies in Jerusalem told them that man could indeed stand in the presence of God.

Under the stimulus of exile, the followers of the priestly school were led to the intuition that if God could be palpably present in one particular place, his presence could be experienced in other places. There is a

The Bible: A Biography
By Karen Armstrong



Grove Atlantic; 320 pages; $21.95
Atlantic Books; £16.99

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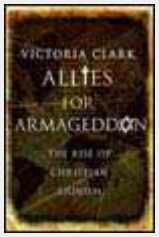
Allies for Armageddon: The Rise of Christian Zionism
By Victoria Clark



Yale University Press; 344 pages; $28 and £18.99

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paradox here: because of their deep connection to one very specific location, the priests of Solomon's Temple might at first sight seem like the epitome of territorially based religion. But their deepest insights stressed the universality of the experience of God, and hence the irrelevance of religious wars over territory.

This distinction between “religion as law, power and conquest” and “religion as vision of God” can be a help to anyone who is grappling with the phenomenon which Victoria Clark presents so vividly and thoughtfully in her account of Christian Zionism, or the movement (strongest in America but also present in many other places) that wants Israel to triumph over all its earthly rivals, in the hope that this will bring closer the end of the world.

With the eye of an experienced journalist and a gift for getting along with people with whom she disagrees, Ms Clark presents some powerful vignettes of a movement which in some ways mirrors the more strident forms of Islamism: it uses quasi-spiritual language but is in fact incorrigibly political and indeed geopolitical in its preoccupations.

Not wholly holy

In certain lights, the movement's ordinary members, as presented by Ms Clark, sound almost endearing in the naive enthusiasm they show as visitors to the Holy Land. But later in her narrative, as she attends a lavish fund-raising dinner in Washington, she feels that something darker is at work: a mixture of “fear, injured pride, ignorance and perceived victimhood” whose brooding extremism could have dire consequences. Many liberal Israelis, as well as many Christians, would agree.

If there is a single word that describes the mentality of the power-brokers of the Christian-Zionist movement, as portrayed by Ms Clark, it might be Deuteronomic: theirs is a brand of religion which is fascinated by military power and the subjugation of enemies, which adamantly externalises evil and finds no place for humility, self-doubt, compassion or universal humanism. Its adherents talk a lot about the Jewish Temple but they seem to have missed what some see as the temple's ultimate message: the possibility of experiencing the presence of God. (Many Christians, in turn, see a similar message in the promise of Jesus Christ to “stand in the midst” of any group of people who gather in his name, anywhere on earth.)

Over the centuries, pioneer peoples, from the Ulster Protestants to the Boers, have drawn inspiration from passages in the Old Testament which describe the acquisition of new land, and the dispossession of its earlier inhabitants. What makes America's Christian Zionists unusual is that their fascination with conquest is vicarious: it is projected onto a land thousands of miles away. The movement's followers are unlikely to feel at first hand the consequences of the policies they advocate. This makes their aspirations both more aggressive and more fantastical. If Ms Armstrong gives the bare bones—and it is just the bare bones—of an alternative view of the scriptures, that is a badly needed service.

The Bible: A Biography.
By Karen Armstrong.
Grove Atlantic; 320 pages; $21.95
Atlantic Books; £16.99

Allies for Armageddon: The Rise of Christian Zionism.
By Victoria Clark.
Yale University Press; 344 pages; $28 and £18.99

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Cambodia

Living through the terror

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From The Economist print edition

Get article background

THREE decades have passed since the events being investigated, but early this month Cambodia's United Nations-backed war-crimes tribunal made its first decision. It refused to grant bail to the first suspect charged. He is known as Duch and ran the infamous Tuol Sleng torture centre in Phnom Penh during the nightmare of Khmer Rouge rule from April 1975 to January 1979. Among those indicted so far, Duch, at just 67, is a juvenile. Khieu Samphan, the Khmers Rouges' former president, is 73 and suffered a stroke last month. Ieng Sary, their foreign minister, is 82. His brother-in-law, Saloth Sar, better known as Pol Pot, died in 1998, a free man.

That the Extraordinary Chambers in the Courts of Cambodia, as the tribunal is known, is at last functional makes the publication in English of Denise Affonço's harrowing memoir a timely reminder of why its work still matters. One of the worst of 20th-century atrocities demands some accountability.

AP

More than a glancing blow

To the End of Hell: One Woman's Struggle to Survive Cambodia's Khmer Rouge
By Denise Affonço

Reportage Press; 165 pages; £15.99

Buy it at
Amazon.com
Amazon.co.uk

The half-French, half-Vietnamese “pure product of colonialism”, Mrs Affonço was always the sort of person likely to suffer badly under Pol Pot's millenarian madness. She did not take advantage of her cushy job at the French embassy to flee the country as the Khmers Rouges advanced, blaming her “daft” husband, Seng, a communist who greeted the glowering new arrivals in Phonm Penh with bottles of Chinese beer, and believed that their orders to evacuate the capital the next day were well-meaning.

He was soon executed. It was more than three years before his wife learned of his fate—when she and other emaciated, desperate women were told that the futile earthworks on which they were toiling would be called “Widows' Dyke”. By then she had also lost her daughter and almost all the rest of her family.

She survived, she recalls with the obsessive recollecting that so often haunts famine victims, on water plants, toads, raw termites, cockroaches, rats and grasshoppers. The Khmers Rouges are notorious for a wide range of atrocities and absurdities, such as the gruesome torture at Tuol Sleng the banning of spectacles (why should anybody need to read?). But their vilest crime was to create famine in a fertile land. Mrs Affonço believed they wanted “to see us all die, one after the other; of exhaustion, hunger and sickness”.

The unanswered question, of course, is “Why?” From Stalinism to the Taliban, totalitarian lunacy is the twisted offspring of naive idealism, and the Khmer Rouge had its roots in Mao's Cultural Revolution in China.

There is a certain symmetry in this book's appearance now. “To the End of Hell” started life as testimony for the show trials *in absentia* of Pol Pot and Ieng Sary in 1979 after Vietnamese invaders had toppled their regime. These origins can be traced not just in the sober and moving retelling of a nightmare survived, but also in the portrayal of the Vietnamese as entirely beneficent liberators. The book, therefore, glosses over one reason it has taken so long for the surviving monsters to be brought to trial:

that some of those now governing Cambodia, including the demagogic prime minister, Hun Sen, are themselves “reformed” Khmer Rouge cadres.

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By Denise Affonço.
Reportage Press; 165 pages; £15.99

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Collected letters

English delight

Dec 13th 2007
From The Economist print edition

Noël Coward liked high camp more than highbrow, as his letters show

THE most successful dramatist of the mid-20th-century was the son of a failed piano salesman. Noël Coward dominated the stage on both sides of the Atlantic, having become a star virtually overnight at the age of 24 when he wrote, directed and starred in “The Vortex”, a play about drug abuse among the upper classes. Over the following quarter-century he became known as the most versatile (and best paid) author of his time.

Coward turned out plays, lyrics and music in volume. Not all were good, and not all were successful, but many were both. The titles alone constitute a kind of instant history of British drama from the 1930s and 1940s: plays, such as “Hay Fever”, “Blithe Spirit” and “Present Laughter”, and films like “In Which We Serve” and “Brief Encounter”. “Mad Dogs and Englishmen”, one of his songs, is still part of Britain's cultural subconscious.

The high point of Coward's prime was “Private Lives”, a claustrophobic drama about two doomed marriages in which he starred with his stage partner, Gertrude Lawrence. To contemporary audiences “Private Lives”, with its allusive dialogue, its fast pace and its palpable amorality, seemed the last word in metropolitan sophistication.

The Letters of Noël Coward: Private Lives Revealed
Edited by Barry Day

Knopf; 800 pages; $37.50.
Methuen; £25

Buy it at
Amazon.com
Amazon.co.uk

But nothing is a last word, and Coward's long prime ended suddenly, his fortunes collapsing in the aftermath of the second world war. This was partly the result of the post-war mood of austerity in Britain, a period when self-conscious dramas about emotionally troubled aristocrats began to look seriously outmoded. It also reflected a shift in popular culture.

Coward never adjusted to the new mood. “Looking around me I deplore the lack of style and elegance in most modern plays,” he wrote in one of his last letters. “I long for the glamour of great stars who used to drive up to the stage door in huge limousines.”

There are letters received as well as letters sent in this collection edited by Barry Day, the self-appointed scholar of Coward's life and work, and they are grouped thematically rather than chronologically. On the whole this unorthodox design works well despite the fact that Coward's wit, so fizzy on stage, often seems heavy-footed and affected on the page. Of particular interest are the letters Coward wrote in later life, particularly when under professional or personal pressure.

His wartime experiences, for example, were notable. He was a vocal opponent of the official British policy of appeasing Hitler's Germany in the 1930s, and liked to refer to the prime minister, Neville Chamberlain, as “that bloody conceited old sod”. Early in the decade, Coward undertook a number of covert intelligence-gathering missions for a war that he was sure was coming. He was a welcome guest at the Roosevelt White House, and after war broke out in 1939 he worked tirelessly to promote British interests in America.

Coward corresponded with a wide range of 20th-century figures, including Marlene Dietrich, Lawrence of Arabia, the Queen Mother and Harold Pinter, a British playwright who won the Nobel prize for literature in 2005 and who was 30 years younger than Coward. The older dramatist's reaction to Mr Pinter—one of the new wave of writers who displaced Coward and all he stood for—is revealing. “Your writing absolutely fascinates me,” he wrote to Mr Pinter in August 1965. “You cheerfully break every rule of the theatre that I was brought up to believe in, except the cardinal one of never boring for a split-second.” Coward and Mr Pinter seemed at opposite ends of a spectrum then. But the originality and psychological grasp of

Coward's best plays prefigured much modern stage and screen writing.

His letters show that he could be camp and irritating, but he was also generous, hardworking (he wrote “Private Lives” in four days while confined to his sickbed), likeable, and dignified in defeat. There are also a few good jokes, like this jolly cable: “I am back from Istanbul—where I was known as English Delight.”

The Letters of Noël Coward: Private Lives Revealed.
Edited by Barry Day.
Knopf; 800 pages; $37.50. Methuen; £25

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Karlheinz Stockhausen

Dec 13th 2007
From The Economist print edition

Karlheinz Stockhausen, seeker of new sounds, died on December 5th, aged 79

Lebrecht Collection

OTHER children had teddy bears and dolls; but Karlheinz Stockhausen had a little wooden hammer. As he toddled round the run-down family farm in the hills near Cologne, he would hit things with it to see what sound they made. Each note, he established young, sent him a different message. No plink or plunk was quite the same as any other.

Most folk at his premières in the 1950s and 1960s might have wished he had never discovered that. Each Stockhausen piece was a shock to the system. It was not just that he had decided tonality was dead; Schoenberg's 12-note serialism had already made dissonance routine. It was not just that he thought "intensive measuring and counting" the key to music's future; Stravinsky had got there long before him. It was that Stockhausen kept on looking for, and finding, sounds never heard before. He made a formula out of the individuality of notes—their particular pitch, timbre and duration, and whether they were soft as a leaf or knocked your hat off—and revelled in it in the most alarming way.

"Mikrophonie I" (1964), for example, was inspired by hitting the tam-tam that hung in his garden with spoons, tumblers and an egg-timer. "Kurzwellen" (1968) was based on the "foreign sounds" of short-wave radio. His most famous piece, and possibly his most popular—though he was never popular—was "Stimmung", or "Tuning" (1968), a sextet for unaccompanied voices on a six-note chord of B-flat that sounded sometimes like a digeridoo and sometimes like blowing across the top of the bottle, and in which the most beautiful harmonics would be interrupted by this:

> Pee peri pee pee: right over my tree
> Let it gently run down
> God is that warm

Small wonder that Sir Thomas Beecham, asked if he had conducted any Stockhausen, said no, but he thought he might once have trodden in some.

Stockhausen's great passion was electronic music, which in the 1950s seemed suddenly to give a pure, bright sound, like "raindrops in the sun", to all the processes of the universe. He was studying then in Paris with Messiaen and Milhaud, but preferred to hole up in studios playing with tapes and sine waves. The result of his labours might be mere background noise, but he liked even that, especially if it could be run through big loudspeakers to a baffled audience. He was delighted to find that metallic sounds could become human voices, and that human voices could be made to quack like a duck. He could conceive and make the cosmos over again.

Electronics also made him funky. In the late 1960s he found jazzmen and rock bands—Miles Davis, Frank

Zappa, the Grateful Dead—quoting him and even sitting at his feet when he lectured at the University of California. He appeared on the cover of the Beatles' “Sergeant Pepper”. And there was probably no one else who could make electronic sounds so lusciously melodic (as in “Kontakte”, of 1959-60), by sheer contrast with all the rattling and plicking that had gone on before.

String quartet for helicopters

Stockhausen's music was constructed on mathematical principles; but, as the years passed, he liked to throw in more elements of motion, freedom and chance. You could play his “Zyklus”, for percussion, upside down or back to front or in any order you liked. In “Gruppen” (1955-57) he used three orchestras, playing different notes at different tempi from different directions. But even this was not enough for the man who often dreamed he was a bird flying; and in his last, huge opera project, “Licht” (Light), he included a string quartet in which the players were in four separate helicopters whirling above the concert hall.

Was this music at all? He thought it was. He whistled his own melodies, he said, as readily as he had once whistled Mozart's. And he was looking for “a new beauty” all the time. There was a deep, obsessive seriousness in him, underlined by a disarming stare, which, he hoped, would “yet reduce even the howling wolves to silence”.

Sheer ego-tripping, countered his detractors. “Licht”, which proposed an opera for every day of the week, needed five orchestras, nine choirs and seven concert halls. Other pieces required purple lighting or Star Trek costumes. And he was ruthlessly protective of the brand, using his own paramours and children to play his compositions, acting as his own soundman and marketing his recordings only through Stockhausen Verlag, at sky-high prices. But he had reason, in his view, to be weird and exclusive. He was special.

Just how special was not readily apparent to those who saw him, in his old Beethoven frock-coat or his shapeless orange cardigan. After the 1970s, Stockhausen seemed to disappear up his own cul-de-sac of experimental noise. But this was his mission. He often dreamt that he had been born and trained on Sirius, and was on Earth “to bring celestial music to humans, and human music to the celestial beings”. To ensure that contact, some of his pieces had to be performed under the stars. By making new sounds, he was preparing the way for a higher kind of life.

Yet again, the general public did not get the message. But when he died, his small band of devoted followers was blissfully sure that he had.

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Overview

Dec 13th 2007
From The Economist print edition

Five **central banks**—in America, Britain, Canada, the euro area and Switzerland—said on December 12th that they would offer short-term funds so far worth roughly $100 billion to the markets to try to bring down elevated interbank borrowing rates and fend off a possible credit squeeze. The unprecedented co-ordinated plan came a day after the Federal Reserve lowered its benchmark interest rate by a quarter of a percentage point to 4.25%, a move dismissed in some quarters as disappointingly small.

Consumer prices in **China** rose by 6.9% in the year to November, compared with 6.5% in the year to October, an 11-year high. Large price rises have started to spread beyond food, to fuel and utilities.

There was more gloomy news about **America's** struggling housing market. The number of home sales agreed on but not yet completed fell by 18.4% in October from a year earlier, according to the National Association of Realtors. There was little cheer from the labour market, either. Employers added 94,000 workers to their payrolls in November. The unemployment rate was 4.7%, up from 4.5% a year earlier.

America's trade deficit in goods and services was $57.8 billion in October, $0.3 billion less than a year earlier.

Employment in the **euro area** rose by 0.3% in the third quarter of 2007, leaving it 1.9% higher than a year earlier. Industrial production rose by 0.4% in October, to be 3.8% higher than a year before.

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Output, prices and jobs

Dec 13th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+2.8 Q3	+4.9	+2.1	+2.0	+1.8 Oct	+3.5 Oct	+1.3	+2.8	4.7 Nov
Japan	+2.1 Q3	+2.6	+1.9	+1.7	+4.7 Oct	+0.3 Oct	+0.4	nil	4.0 Oct
China	+11.5 Q3	na	+11.5	+9.9	+17.3 Nov	+6.9 Nov	+1.9	+4.7	9.5 2006
Britain	+3.2 Q3	+3.0	+3.1	+2.0	+1.0 Oct	+2.1 Oct§	+2.4	+2.3	5.3 Oct††
Canada	+2.9 Q3	+2.9	+2.5	+2.0	+1.4 Sep	+2.4 Oct	+1.0	+2.3	5.9 Nov
Euro area	+2.7 Q3	+2.8	+2.6	+1.9	+3.8 Oct	+3.0 Nov	+1.9	+2.2	7.2 Oct
Austria	+3.4 Q3	+3.0	+3.1	+2.6	+1.3 Sep	+2.8 Oct	+1.2	+1.9	4.3 Oct
Belgium	+2.6 Q3	+2.2	+2.6	+2.0	+0.6 Oct	+2.9 Nov	+1.5	+1.8	11.1 Oct‡‡
France	+2.1 Q3	+2.9	+1.9	+1.8	+4.0 Oct	+2.4 Nov	+1.4	+1.5	7.9 Q3§§
Germany	+2.5 Q3	+2.8	+2.6	+2.0	+5.9 Oct	+3.0 Nov	+1.5	+2.2	8.6 Nov
Greece	+3.6 Q3	na	+3.8	+2.9	−0.1 Oct	+3.9 Nov	+2.9	+2.8	7.6 Aug
Italy	+1.9 Q3	+1.5	+1.7	+1.3	−1.5 Oct	+2.4 Nov	+1.8	+2.0	6.0 Q2
Netherlands	+4.1 Q3	+7.2	+2.8	+2.2	+2.3 Oct	+1.9 Nov	+1.1	+1.7	4.3 Oct††
Spain	+3.8 Q3	+2.8	+3.7	+2.5	+2.6 Oct	+3.6 Oct	+2.5	+2.8	8.1 Oct
Czech Republic	+6.0 Q3	+5.8	+5.7	+4.6	+8.4 Oct	+5.0 Nov	+1.5	+2.7	5.6 Nov
Denmark	+1.8 Q3	+5.3	+1.5	+1.5	−0.8 Oct	+2.5 Nov	+1.7	+1.6	3.0 Oct
Hungary	+1.0 Q3	+1.2	+2.0	+3.0	+5.9 Oct	+7.1 Nov	+6.4	+7.8	7.3 Oct††
Norway	+3.1 Q3	+5.6	+3.1	+2.9	+4.6 Oct	+1.5 Nov	+2.6	+0.4	2.6 Sep††
Poland	+6.4 Q3	na	+6.5	+5.2	+10.6 Oct	+3.0 Oct	+1.2	+2.2	11.3 Oct‡‡
Russia	+7.6 Q3	na	+7.2	+6.6	+6.1 Oct	+10.8 Oct	+9.2	+8.9	5.8 Oct‡‡
Sweden	+2.5 Q3	+2.4	+3.2	+2.9	+1.0 Oct	+3.3 Nov	+1.7	+2.0	5.2 Nov‡‡
Switzerland	+2.9 Q3	+1.3	+2.7	+2.0	+9.8 Q2	+1.8 Nov	+0.5	+0.8	2.7 Nov‡‡
Turkey	+1.5 Q3	na	+4.9	+4.8	+7.9 Oct	+8.4 Nov	+9.9	+8.7	9.2 Q3‡‡
Australia	+4.3 Q3	+4.1	+4.2	+3.5	+4.6 Q2	+1.9 Q3	+3.9	+2.4	4.5 Nov
Hong Kong	+6.2 Q3	+7.0	+6.1	+4.5	−2.3 Q2	+3.2 Oct	+2.0	+2.0	3.9 Oct††
India	+8.9 Q3	na	+7.9	+7.7	+11.8 Oct	+5.5 Oct	+7.3	+6.5	7.6 2006
Indonesia	+6.5 Q3	na	+6.2	+6.1	−1.4 Sep	+6.7 Nov	+5.3	+6.3	9.8 Feb
Malaysia	+6.7 Q3	na	+6.0	+5.7	+4.7 Oct	+1.9 Oct	+3.1	+2.0	3.4 Q2
Pakistan	+7.0 2007**	na	+6.4	+5.9	+7.4 Sep	+8.7 Nov	+8.1	+6.9	6.2 2006††
Singapore	+8.9 Q3	+6.4	+7.7	+4.8	+0.9 Oct	+3.6 Oct	+0.4	+1.8	1.7 Q3
South Korea	+5.2 Q3	+1.4	+5.0	+4.7	+17.8 Oct	+3.5 Nov	+2.1	+2.5	3.2 Nov
Taiwan	+6.9 Q3	na	+4.3	+4.4	+15.9 Oct	+4.8 Nov	+0.2	+1.4	3.9 Oct
Thailand	+4.9 Q3	+6.3	+4.5	+4.9	+12.2 Oct	+3.0 Nov	+3.5	+2.0	1.2 Sep
Argentina	+8.7 Q2	+8.8	+8.3	+6.0	+4.4 Oct	+8.5 Nov	+10.0	+8.8	8.1 Q3‡‡
Brazil	+5.7 Q3	+6.9	+4.7	+4.5	+10.3 Oct	+4.2 Nov	+3.0	+3.6	8.7 Oct‡‡
Chile	+4.1 Q3	−2.5	+5.4	+4.6	+5.0 Oct	+7.4 Nov	+2.1	+4.2	7.7 Oct††‡‡
Colombia	+6.9 Q2	+4.4	+6.7	+5.6	+6.0 Sep	+5.4 Nov	+4.3	+5.5	10.0 Oct‡‡
Mexico	+3.3 Q3	+5.9	+3.0	+2.8	+0.4 Sep	+3.9 Nov	+4.1	+4.0	3.9 Oct‡‡
Venezuela	+8.7 Q3	na	+7.9	+5.1	+9.3 Aug	+20.7 Nov	+15.8	+18.1	8.5 Q3‡‡
Egypt	+6.9 Q3	na	+7.1	+7.3	+7.5 2007**	+6.9 Nov	+12.1	+9.2	8.1 Q2‡‡
Israel	+4.8 Q3	+6.1	+5.3	+4.2	−3.3 Sep	+2.2 Oct	−0.2	+0.4	7.3 Q3
Saudi Arabia	+4.3 2006	na	+4.7	+5.6	na	+5.4 Oct	+2.7	+4.0	na
South Africa	+5.1 Q3	+4.7	+4.9	+5.1	+5.2 Oct	+7.9 Oct	+5.4	+6.2	25.5 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+6.4 Q3	+7.4	+7.1	+5.3	+5.9 Oct	+9.1 Nov	+4.6	+6.4	5.7 Sep
Finland	+4.1 Q3	+3.0	+4.1	+3.2	−1.9 Oct	+2.7 Oct	+1.8	+2.6	7.0 Oct
Iceland	+4.3 Q3	+9.9	+1.8	+3.2	+7.6 2006	+5.2 Nov	+7.3	+5.0	0.8 Oct‡‡
Ireland	+5.4 Q2	−5.5	+4.6	+3.5	+10.2 Oct	+4.8 Oct	+3.9	+4.7	4.6 Nov
Latvia	+10.9 Q3	na	+10.7	+7.5	−1.6 Oct	+13.7 Nov	+6.4	+10.1	5.2 Sep
Lithuania	+10.8 Q3	+10.0	+9.2	+7.4	na	+7.8 Nov	+4.4	+5.6	4.3 Nov
Luxembourg	+5.3 Q2	+5.3	+5.0	+4.4	−5.1 Sep	+3.2 Nov	+2.0	+2.3	4.3 Oct‡‡
New Zealand	+3.8 Q2	+3.4	+3.1	+2.8	+0.5 Q2	+1.8 Q3	+3.5	+2.5	3.5 Q3
Peru	+8.8 Sep	na	+8.0	+6.9	+9.4 Sep	+3.5 Nov	+1.5	+1.7	7.4 Oct‡‡
Philippines	+6.6 Q3	+1.1	+6.9	+5.0	−1.0 Sep	+3.2 Nov	+4.7	+2.7	7.8 Q3‡‡
Portugal	+1.8 Q3	nil	+1.8	+2.0	+3.6 Oct	+2.6 Oct	+2.7	+2.3	7.9 Q3‡‡
Slovakia	+9.4 Q3	na	+8.5	+6.5	+17.3 Oct	+3.1 Nov	+4.3	+2.7	7.9 Oct
Slovenia	+6.3 Q3	na	+5.8	+4.6	+10.9 Oct	+5.7 Nov	+2.3	+3.4	7.2 Sep‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.2% in Oct. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Dec 13th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Dec 4th	Dec 11th*	% change on one month	% change on one year
Dollar index				
All items	211.4	215.3	+1.2	+15.6
Food	205.7	210.7	+8.8	+38.1
Industrials				
All	218.7	221.1	−6.8	−3.8
Nfa†	171.7	176.5	+0.5	+26.2
Metals	244.5	245.6	−9.4	−12.0
Sterling index				
All items	155.7	160.1	+2.9	+11.5
Euro index				
All items	132.5	135.5	+0.6	+4.1
Gold				
$ per oz	798.95	808.65	+1.1	+28.6
West Texas Intermediate				
$ per barrel	88.32	89.32	−2.3	+46.6

*Provisional †Non-food agriculturals.

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Accountability

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From The Economist print edition

When it comes to accountability, the UN Development Programme wins the gold medal. The Asian Development Bank and Christian Aid tie for silver. At least that is how they are rated in a report from One World Trust. The study ranks 30 global organisations, including companies as well as inter-governmental organisations and voluntary groups and charities, according to an index based on criteria such as transparency and participation. It finds that voluntary groups and charities are more willing to involve outsiders in decision-making, whereas companies are more responsive to external criticism. Organisations such as development banks are more likely to disclose the findings of reviews into their policies.

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Trade, exchange rates, budget balances and interest rates

Dec 13th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Dec 12th	Currency units, per $ year ago	Budget balance % of GDP 2007†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−806.4 Oct	−793.2 Q2	−5.5	–	–	−1.2	4.29	4.07
Japan	+107.6 Oct	+205.0 Sep	+4.7	112	117	−2.6	0.73	1.49
China	+259.8 Nov	+249.9 2006	+11.4	7.38	7.83	0.2	4.35	4.88
Britain	−165.8 Oct	−86.6 Q2	−3.3	0.49	0.51	−3.0	6.61	4.82
Canada	+49.0 Oct	+16.3 Q3	+1.5	1.01	1.16	1.0	3.85	4.02
Euro area	+44.5 Sep	+34.2 Sep	+0.1	0.68	0.76	−0.9	4.95	4.33
Austria	+0.9 Sep	+12.3 Q2	+2.8	0.68	0.76	−0.6	4.95	4.42
Belgium	+18.9 Sep	+13.0 Jun	+2.5	0.68	0.76	−0.4	5.02	4.46
France	−47.4 Oct	−28.0 Sep	−1.2	0.68	0.76	−2.4	4.95	4.41
Germany	+263.1 Oct	+207.8 Oct	+5.8	0.68	0.76	−0.3	4.95	4.33
Greece	−52.1 Sep	−41.7 Sep	−13.1	0.68	0.76	−2.7	4.95	4.59
Italy	−13.6 Sep	−47.7 Sep	−2.5	0.68	0.76	−2.4	4.95	4.60
Netherlands	+51.1 Sep	+57.2 Q3	+7.6	0.68	0.76	−0.3	4.95	4.40
Spain	−126.0 Sep	−126.1 Aug	−9.3	0.68	0.76	1.8	4.95	4.44
Czech Republic	+3.7 Oct	−5.4 Oct	−3.8	17.8	21.1	−3.9	4.04	4.65
Denmark	+4.2 Oct	+4.3 Oct	+1.5	5.08	5.64	3.8	4.95	4.43
Hungary	−0.8 Oct	−6.8 Q2	−5.8	172	191	−6.0	7.50	6.80
Norway	+54.7 Oct	+59.9 Q3	+14.6	5.42	6.17	18.9	6.16	4.67
Poland	−11.7 Oct	−16.2 Oct	−4.3	2.43	2.87	−2.0	5.64	5.83
Russia	+124.0 Oct	+73.5 Q3	+6.1	24.5	26.3	3.0	10.00	6.35
Sweden	+18.5 Oct	+29.4 Q3	+7.0	6.42	6.84	2.9	4.03	4.39
Switzerland	+11.3 Oct	+64.9 Q2	+16.2	1.14	1.21	0.3	2.79	3.03
Turkey	−59.6 Oct	−34.4 Sep	−7.4	1.17	1.42	−2.5	17.24	6.07‡
Australia	−15.9 Oct	−49.9 Q3	−5.8	1.13	1.27	1.6	7.34	6.17
Hong Kong	−21.9 Oct	+24.9 Q2	+9.7	7.80	7.77	1.9	3.78	3.13
India	−66.0 Oct	−9.7 Q2	−1.1	39.4	44.8	−3.4	7.50	8.17
Indonesia	+41.2 Oct	+11.0 Q2	+2.5	9,301	9,070	−1.7	8.01	6.61‡
Malaysia	+29.3 Oct	+27.6 Q2	+13.5	3.32	3.54	−3.2	3.62	4.55‡
Pakistan	−15.2 Nov	−7.3 Q3	−4.6	61.3	60.9	−4.6	9.80	8.34‡
Singapore	+37.4 Oct	+46.3 Q3	+24.5	1.44	1.54	0.3	2.56	2.81
South Korea	+17.4 Nov	+9.7 Oct	+1.0	927	923	0.6	5.67	5.90
Taiwan	+17.6 Nov	+28.4 Q3	+6.3	32.4	32.5	−2.1	2.70	2.60
Thailand	+10.5 Oct	+12.9 Oct	+3.6	33.6	35.2	−1.9	3.80	4.70
Argentina	+10.7 Oct	+7.4 Q2	+2.7	3.14	3.06	1.2	14.50	na
Brazil	+41.4 Nov	+7.4 Oct	+0.7	1.76	2.14	−1.8	11.18	6.16‡
Chile	+24.8 Nov	+6.7 Q3	+4.4	498	527	8.8	6.24	4.60‡
Colombia	−1.8 Sep	−4.8 Q2	−3.8	2,003	2,274	−0.2	8.69	5.83‡
Mexico	−12.1 Oct	−7.5 Q3	−0.5	10.8	10.8	nil	7.44	7.97
Venezuela	+23.4 Q3	+20.2 Q3	+9.2	5,250	3,175§	−1.4	11.58	6.55‡
Egypt	−15.8 Q2	+2.7 Q2	+1.8	5.53	5.72	−7.5	7.13	5.48‡
Israel	−9.5 Oct	+7.8 Q2	+3.7	3.92	4.18	−0.2	4.34	5.37
Saudi Arabia	+146.6 2006	+98.9 2006	+23.2	3.75	3.75	18.9	4.25	na
South Africa	−11.3 Oct	−19.9 Q3	−6.8	6.69	6.98	1.0	11.15	8.34
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.1 Sep	−3.2 Oct	−14.8	10.7	11.8	3.0	7.28	na
Finland	+12.7 Oct	+13.2 Sep	+6.4	0.68	0.76	4.0	4.85	4.40
Iceland	−1.6 Nov	−3.0 Q3	−16.9	60.8	69.4	5.3	14.16	na
Ireland	+36.9 Sep	−10.5 Q2	−5.2	0.68	0.76	1.2	4.95	4.53
Latvia	−7.2 Oct	−6.4 Sep	−22.2	0.48	0.53	0.4	9.51	na
Lithuania	−6.7 Oct	−4.5 Sep	−14.5	2.35	2.61	−0.5	7.14	na
Luxembourg	−5.9 Sep	+4.6 Q2	na	0.68	0.76	1.0	4.95	na
New Zealand	−4.2 Oct	−9.2 Q2	−8.1	1.27	1.45	4.8	7.30	6.42
Peru	+8.5 Sep	+2.2 Q3	+1.9	2.97	3.21	0.7	5.00	na
Philippines	−4.3 Sep	+6.4 Jun	+6.7	41.3	49.4	−0.8	6.75	na
Portugal	−24.1 Sep	−18.4 Sep	−8.5	0.68	0.76	−3.0	4.95	4.52
Slovakia	−1.1 Sep	−4.0 nil	−4.4	22.6	26.3	−2.9	4.04	4.61
Slovenia	−2.8 Oct	−1.4 Aug	−3.3	0.68	0.76	−0.5	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Dec 13th 2007
From The Economist print edition

Markets

	Index Dec 12th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,473.9	+0.2	+8.1	+8.1
United States (S&P 500)	1,486.6	+0.1	+4.8	+4.8
United States (NAScomp)	2,671.1	+0.2	+10.6	+10.6
Japan (Nikkei 225)	15,932.3	+2.1	−7.5	−1.8
Japan (Topix)	1,556.9	+2.0	−7.4	−1.7
China (SSEA)	5,346.9	+1.0	+89.9	+101.0
China (SSEB, $ terms)	359.0	+1.2	+160.8	+175.9
Britain (FTSE 100)	6,559.8	+1.0	+5.4	+10.2
Canada (S&P TSX)	13,809.4	+0.5	+7.0	+23.2
Euro area (FTSE Euro 100)	1,399.1	+1.4	+9.4	+21.8
Euro area (DJ STOXX 50)	4,469.5	+1.3	+8.5	+20.8
Austria (ATX)	4,497.8	+1.1	+0.8	+12.2
Belgium (Bel 20)	4,142.5	nil	−5.6	+5.1
France (CAC 40)	5,743.3	+1.5	+3.6	+15.4
Germany (DAX)*	8,076.1	+1.7	+22.4	+36.3
Greece (Athex Comp)	5,212.2	+2.4	+18.6	+32.0
Italy (S&P/MIB)	39,464.0	+0.9	−4.8	+6.0
Netherlands (AEX)	516.2	+1.7	+4.2	+16.0
Spain (Madrid SE)	1,717.6	+0.2	+10.5	+23.0
Czech Republic (PX)	1,842.6	+3.6	+16.0	+36.1
Denmark (OMXCB)	463.5	+1.7	+9.3	+21.5
Hungary (BUX)	26,751.3	+3.1	+7.7	+19.5
Norway (OSEAX)	566.5	−0.6	+12.8	+29.7
Poland (WIG)	58,629.9	+0.8	+16.3	+38.8
Russia (RTS, $ terms)	2,359.9	+4.3	+14.1	+22.8
Sweden (Aff.Gen)	355.3	+2.3	−2.7	+3.6
Switzerland (SMI)	8,852.3	+1.1	+0.8	+8.2
Turkey (ISE)	56,766.2	+2.2	+45.1	+75.8
Australia (All Ord.)	6,675.4	+1.6	+18.3	+32.5
Hong Kong (Hang Seng)	28,521.1	−2.8	+42.9	+42.5
India (BSE)	20,375.9	+3.2	+47.8	+66.1
Indonesia (JSX)	2,795.8	+1.0	+54.8	+49.7
Malaysia (KLSE)	1,423.7	−0.3	+29.9	+38.1
Pakistan (KSE)	14,556.1	+3.0	+45.0	+44.1
Singapore (STI)	3,549.3	−0.3	+18.9	+26.6
South Korea (KOSPI)	1,927.5	−0.6	+34.4	+34.9
Taiwan (TWI)	8,490.8	−2.1	+8.5	+9.3
Thailand (SET)	834.1	+0.1	+22.7	+32.0
Argentina (MERV)	2,226.1	+0.6	+6.5	+4.0
Brazil (BVSP)	64,741.0	−0.3	+45.6	+76.4
Chile (IGPA)	14,145.0	−2.3	+14.3	+22.2
Colombia (IGBC)	10,829.8	−1.6	−3.0	+8.5
Mexico (IPC)	30,327.4	−1.4	+14.7	+14.8
Venezuela (IBC)	37,724.1	−5.3	−27.8	−54.0
Egypt (Hermes)	87,126.1	−1.9	+42.2	+46.9
Israel (TA-100)	1,182.6	+2.5	+28.3	+37.9
Saudi Arabia (Tadawul)	11,022.7	+11.4	+38.9	+39.1
South Africa (JSE AS)	30,307.1	+0.6	+21.6	+28.2
Europe (FTSEurofirst 300)	1,546.4	+1.3	+4.2	+16.0
World, dev'd (MSCI)	1,622.9	+0.8	+9.4	+9.4
Emerging markets (MSCI)	1,272.1	+0.2	+39.4	+39.4
World, all (MSCI)	411.9	+0.7	+12.0	+12.0
World bonds (Citigroup)	728.4	−1.0	+10.7	+10.7
EMBI+ (JPMorgan)	433.2	+0.2	+6.4	+6.4
Hedge funds (HFRX)	1,332.7	nil	+4.5	+4.5
Volatility, US (VIX)	22.5	22.5	11.6	(levels)
CDSs, Eur (iTRAXX)†	56.4	+2.5	+142.0	+169.4
CDSs, N Am (CDX)†	82.3	−6.4	+146.1	+146.1
Carbon trading (EU ETS) €‡	22.6	−1.9	+24.2	+38.2

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. ‡New series.

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Remittances

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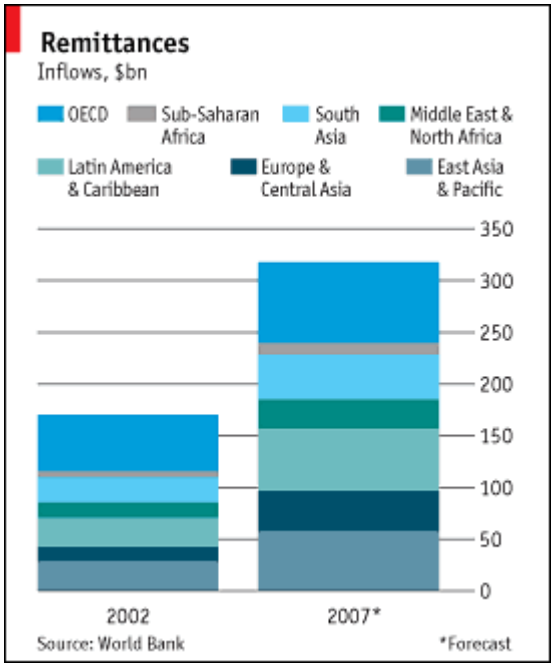

Total global remittances from workers to their families will reach $318 billion in 2007, up from $170 billion in 2002. Most of the money goes to developing countries, which will receive $240 billion this year—more than double the value of foreign aid. The three countries getting the most are India, China and Mexico, which together account for nearly a third of remittances to the developing world. However, Mexico has been affected by the economic slowdown in the United States and its previous rapid growth of inflows slowed to a trickle this year. The largest recipient region is Latin America and the Caribbean, but since 2002 transfers to Europe and Central Asia have increased the fastest.

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